Dr Marc Faber 2010
Presentation the Mises Institute
12.00pm, Saturday, May 22, 2010
at the University Club
New York
USA

MIRROR, MIRROR ON THE WALL WHEN IS THE NEXT AIG TO FALL?

"Give me control of a nation's money and I care not who makes the laws"
- Amschel Rothschild

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TOPICS FOR DISCUSSION

Paul Krugman: "To be honest, a new bubble now would help us out a lot even if we paid for it later. This is a really good time for a bubble."

Is another "bubble" desirable? What about "Exit Strategies?"

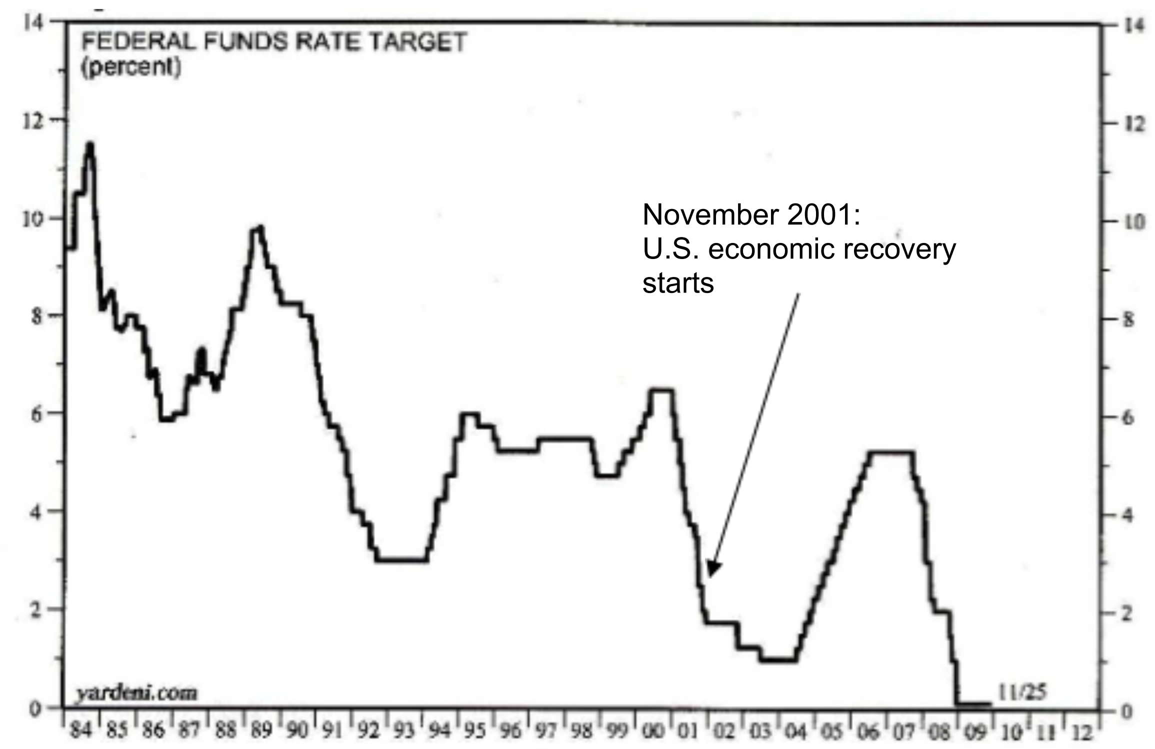
The unintended consequences of large fiscal deficits and of an expansionary monetary policy.

Causes and consequences of the ongoing shift in the balance of economic and political power from the most developed countries to emerging economies.

In 2008 the global financial system went bust. Will sovereign states follow?

2010 – 2020: worst and best assets to own?

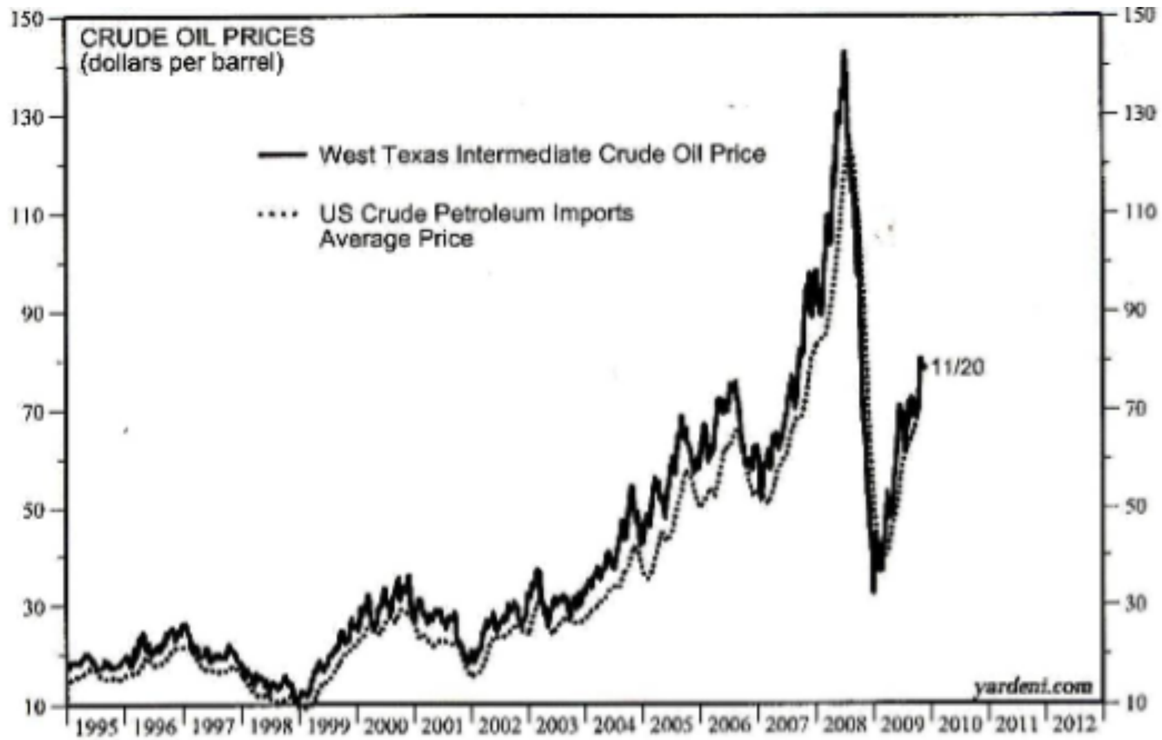
HOW ARTIFICIALLY LOW INTEREST RATES CAUSED THE CRISIS AND BUBBLES



Fed Fund Rate remained at 1% until June 2004

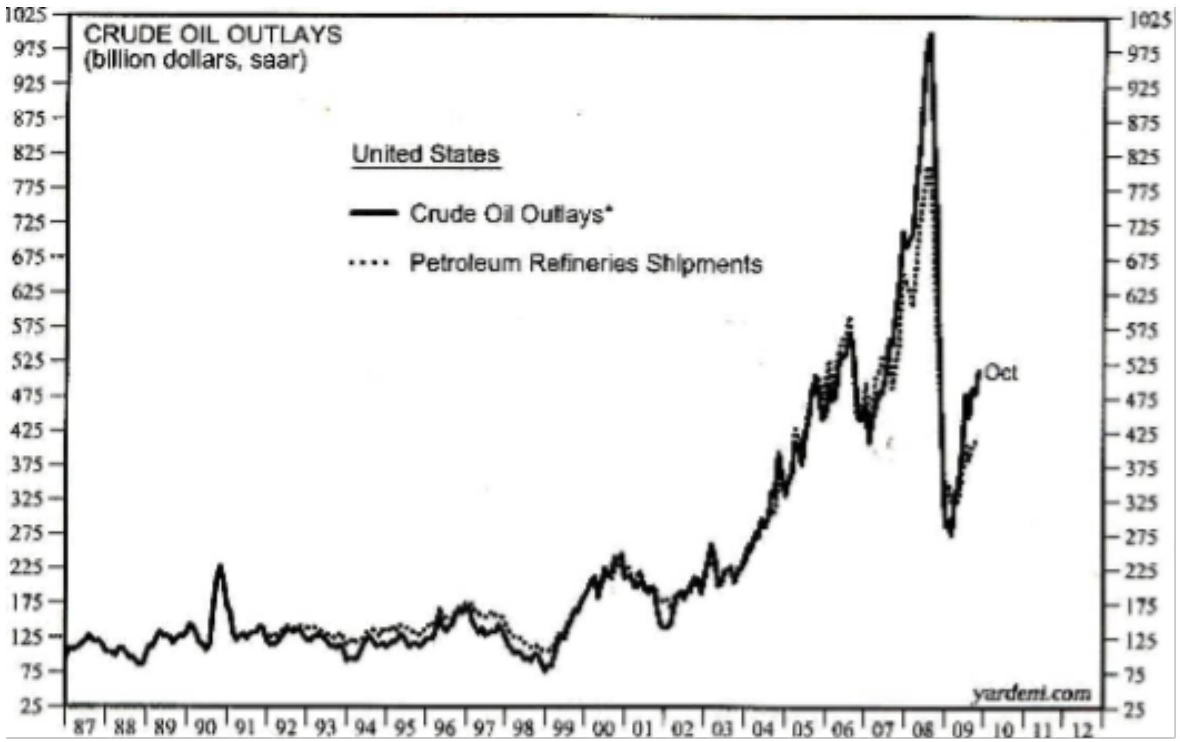
Source: Ed Yardeni, www.yardeni.com

EASY MONEY EXACERBATES VOLATILITY



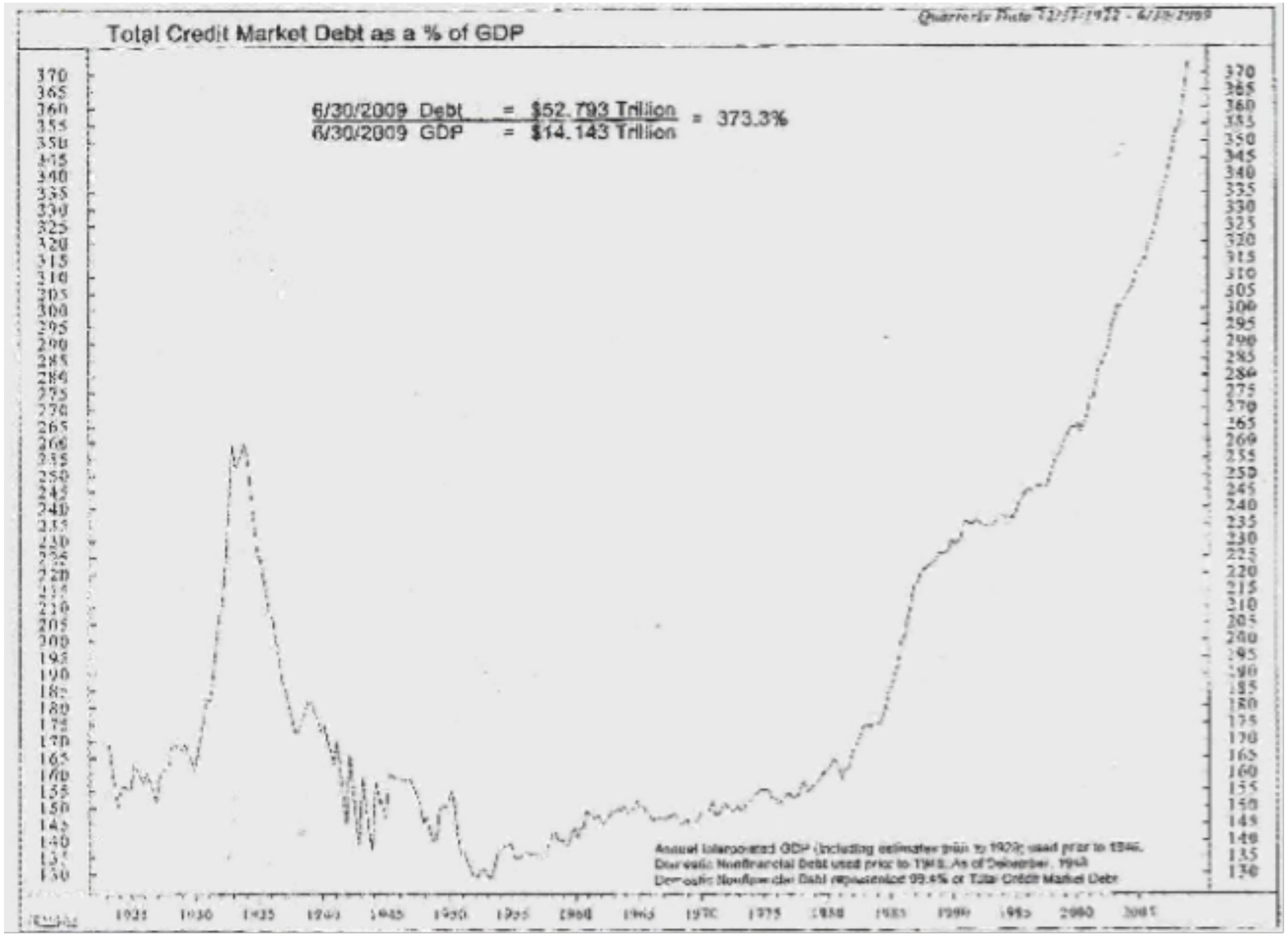
Source: Ed Yardeni, www.yardeni.com

EASY MONEY LEADS TO UNINTENDED CONSEQUENCES



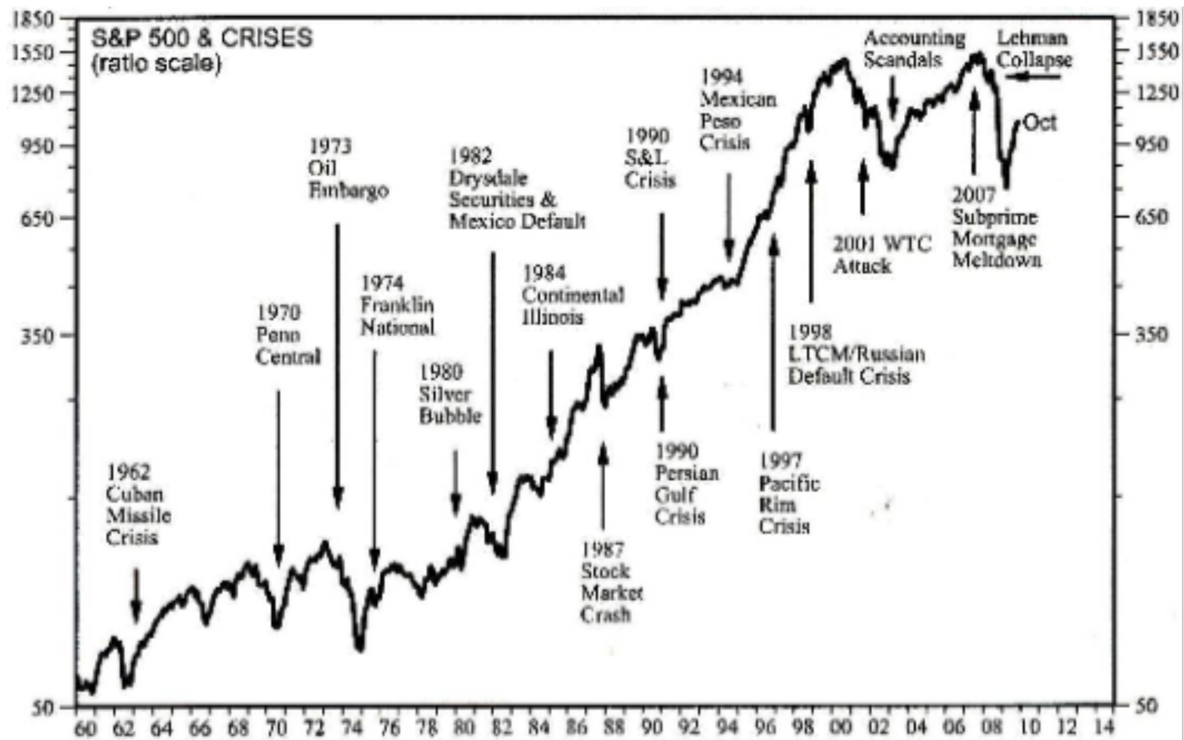
Source: Ed Yardeni, www.yardeni.com

HOW DID ECONOMISTS GET IT SO WRONG?



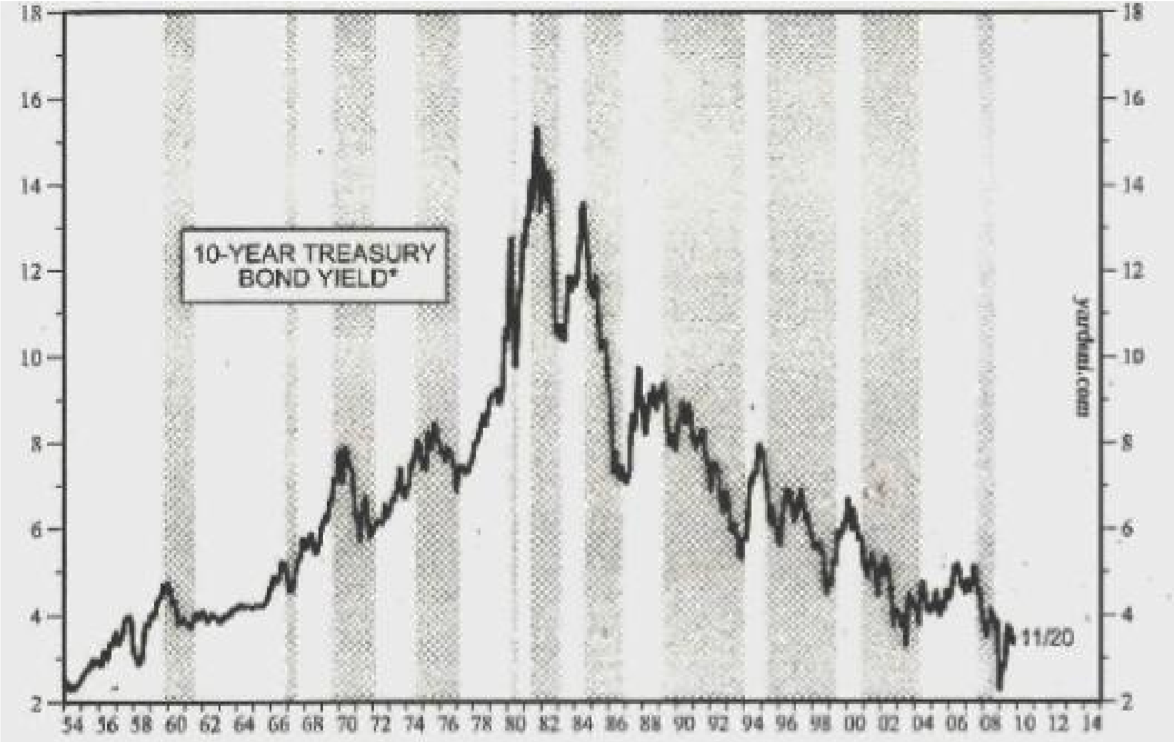
Source: Ned Davis Research

EACH CRISIS PRODUCED MORE MONETARY EASING AND HIGHER STOCK PRICES! BUT WILL IT WORK THIS AND NEXT TIME?



Source: Ed Yardeni, www.yardeni.com

1. YEAR U.S. TREASURY CONSTANT MATURITY
(Monthly)

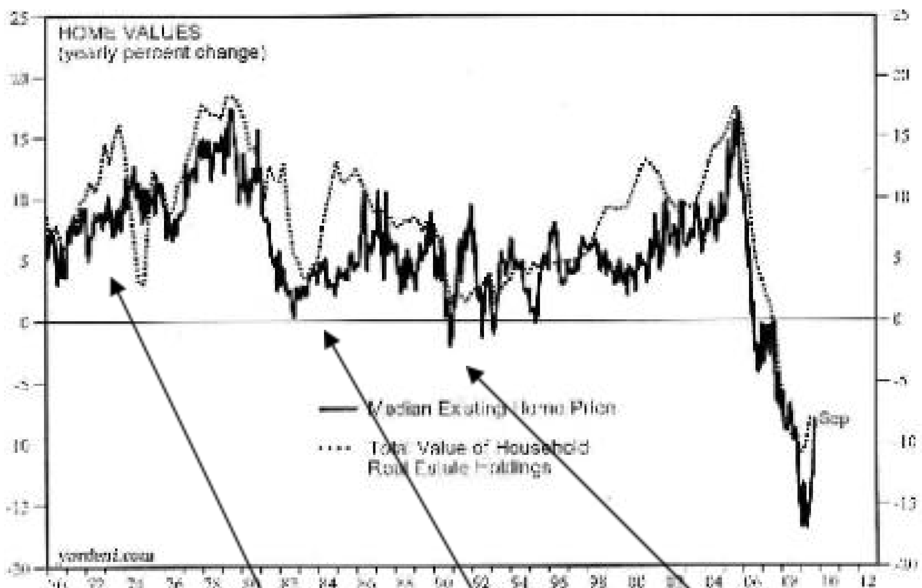


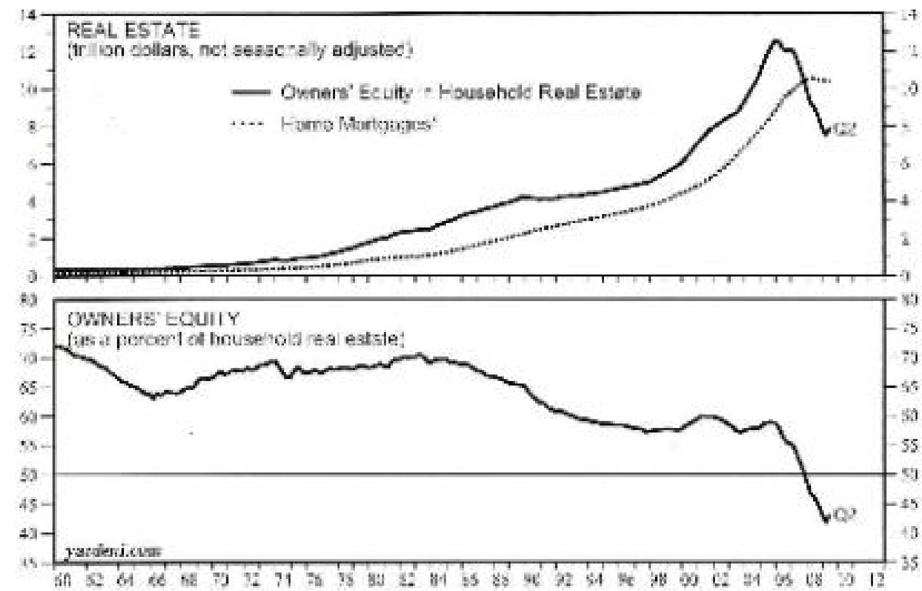
Note: Shaded areas show periods of monetary easing between cyclical peaks and troughs in the federal funds rate.
Monetary tightening occurred between shaded areas.
* Monthly through 1986, then 4-week average.
Source: Board of Governors of the Federal Reserve System.

FROM THE ILLUSION OF WEALTH TO TOTAL WEALTH DESTRUCTION, 1997 - 2009

Source: Robert Prechter, www.elliottwave.com

GLOBAL COLLAPSE IN REAL ESTATE PRICES





33% of homes do not have mortgages

’73/’74 Recession

1982 Recession

1990 Recession

Source: Ed Yardeni, www.yardeni.com

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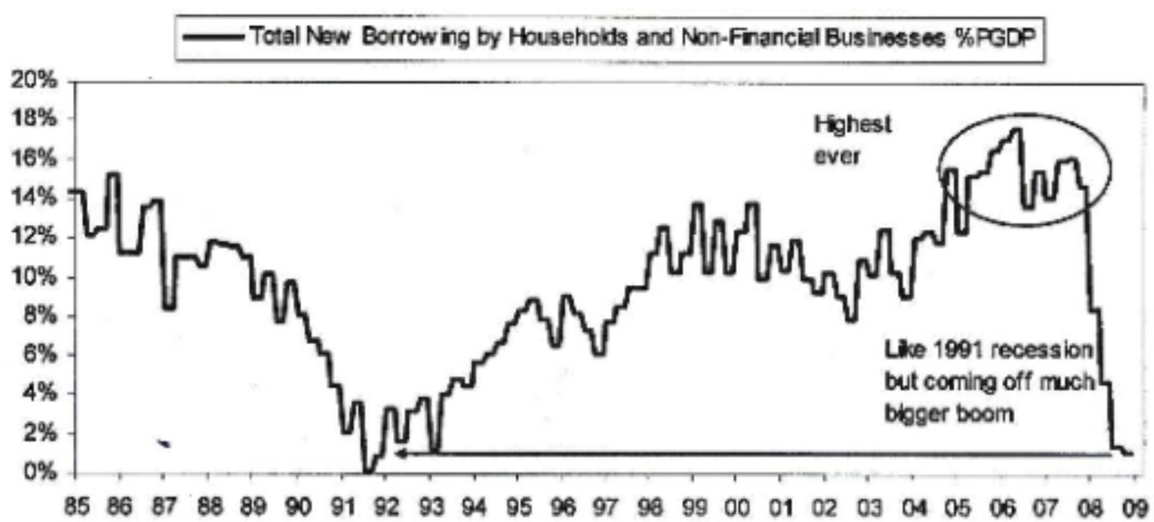
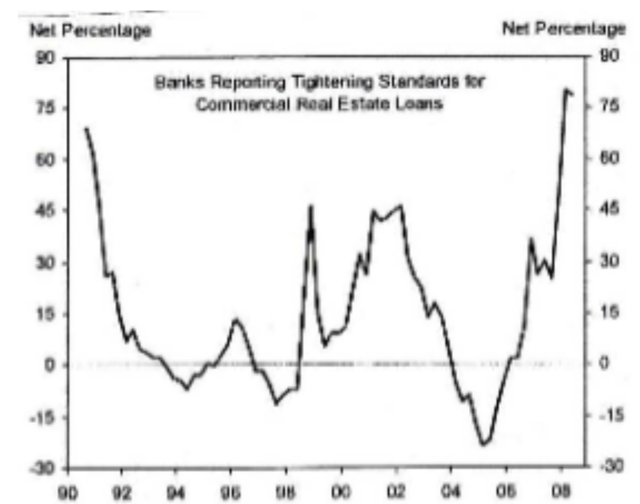
CREDIT GROWTH COLLAPSES AS LENDING STANDARDS TIGHTEN

Total New Borrowing by Households and Non-Financial Business % PGDP

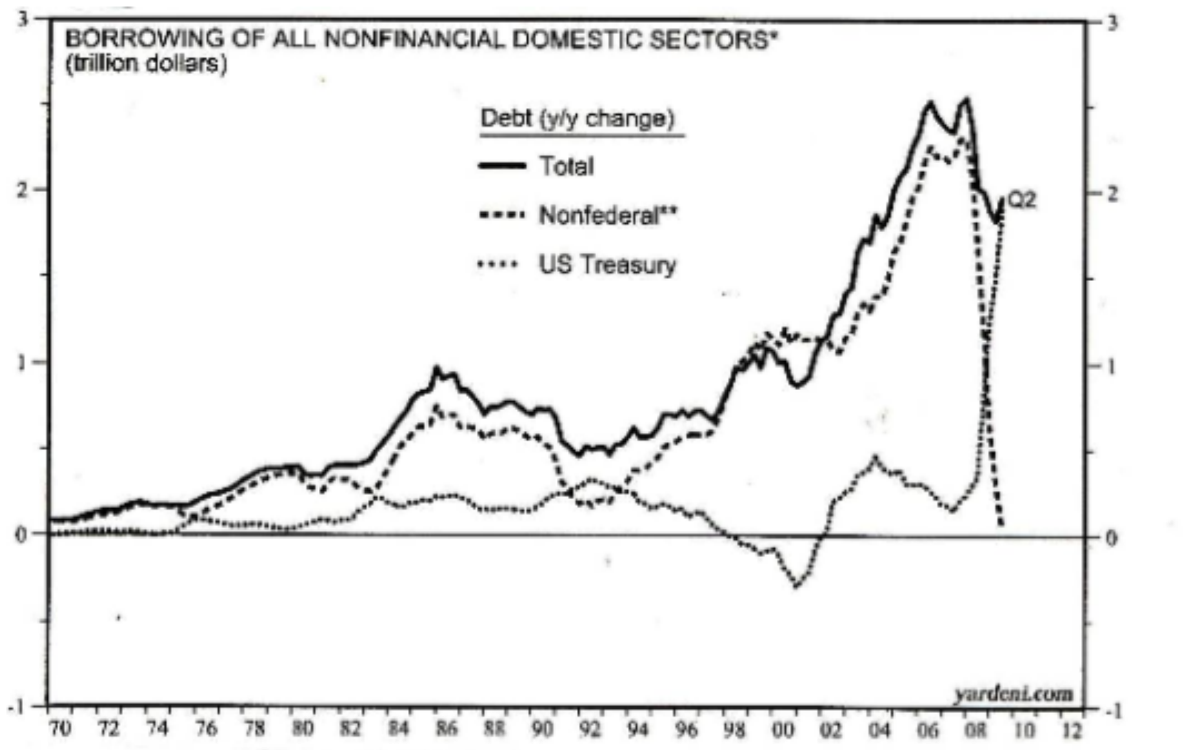


Lending Standards Tighten



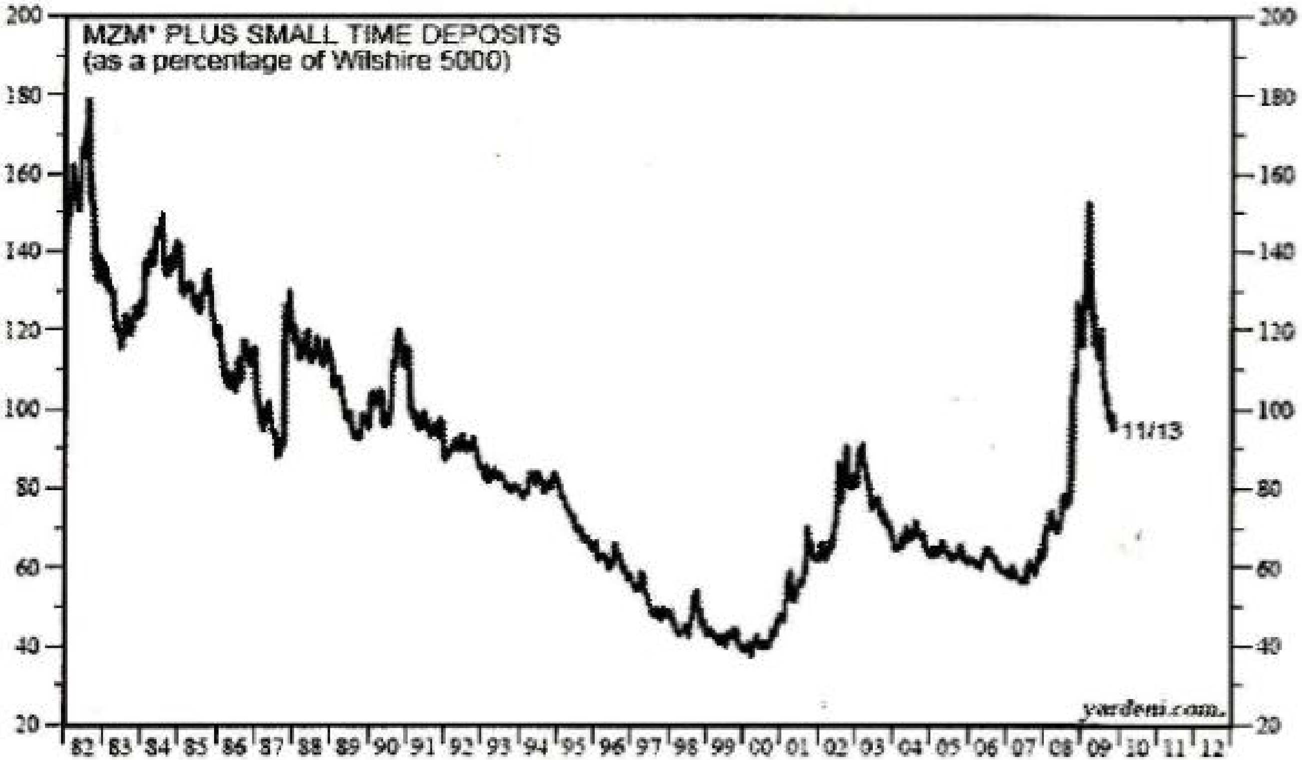
Source: Bridgewater Associates, Goldman Sachs

TOTAL CREDIT AS A PERCENTAGE OF THE ECONOMY STILL GROWING



Source: Ed Yardeni; www.yardeni.com

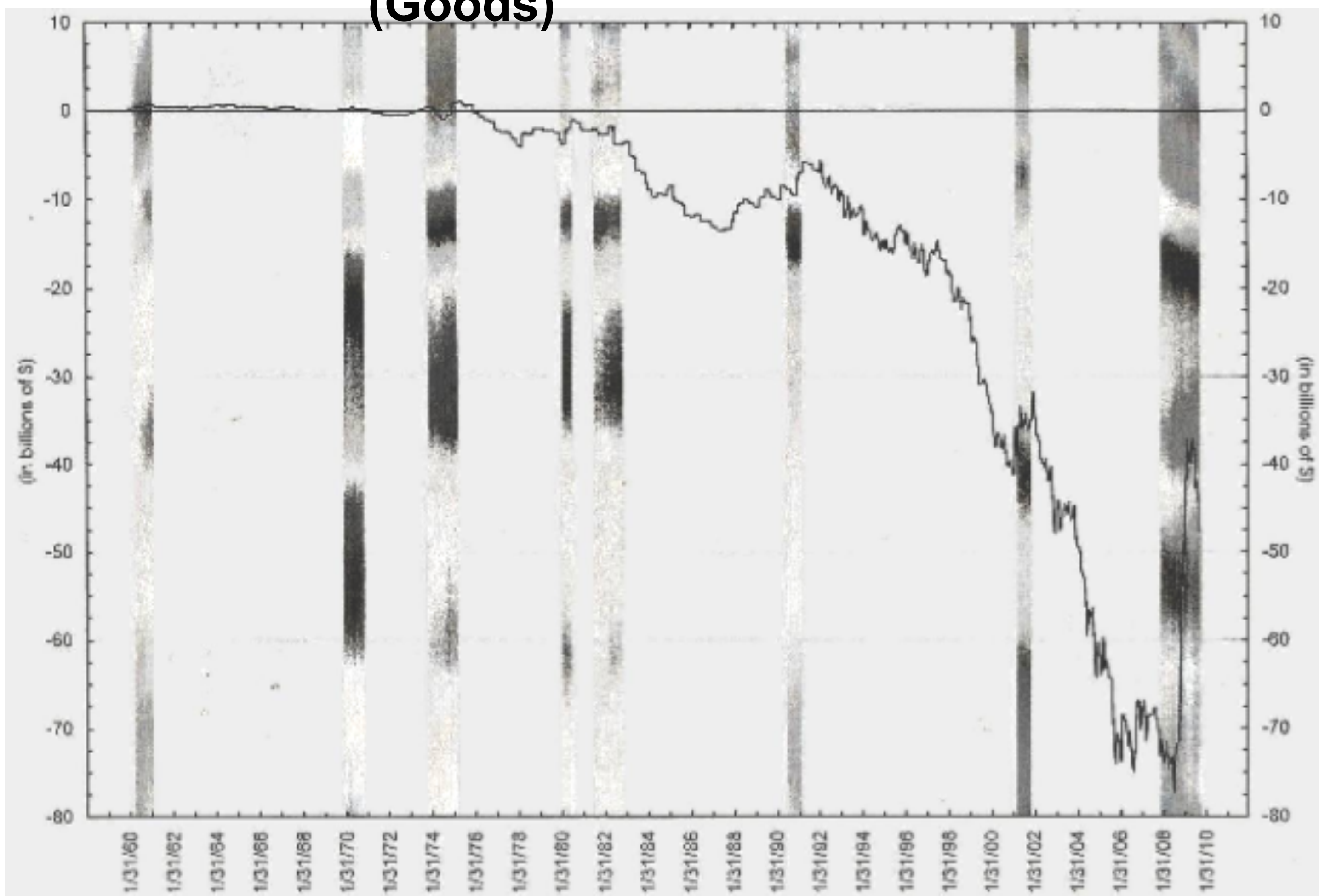
ZERO INTEREST RATES CREATE NEW BUBBLES



Source: Ed Yardeni; www.yardeni.
com

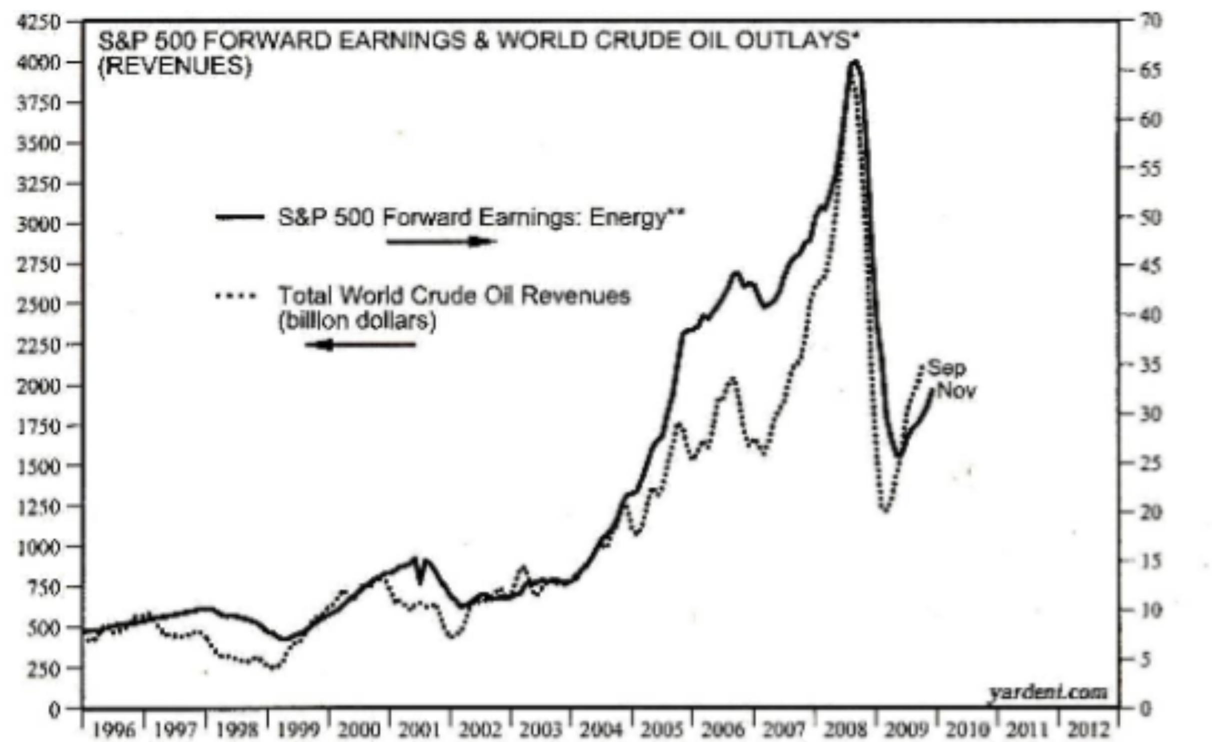
ANOTHER UNINTENDED CONSEQUENCE OF EXPANSIONARY U.S. MONETARY POLICIES

Trade Balance (Goods)



Source: Ron Griess, www.thechartstore.com

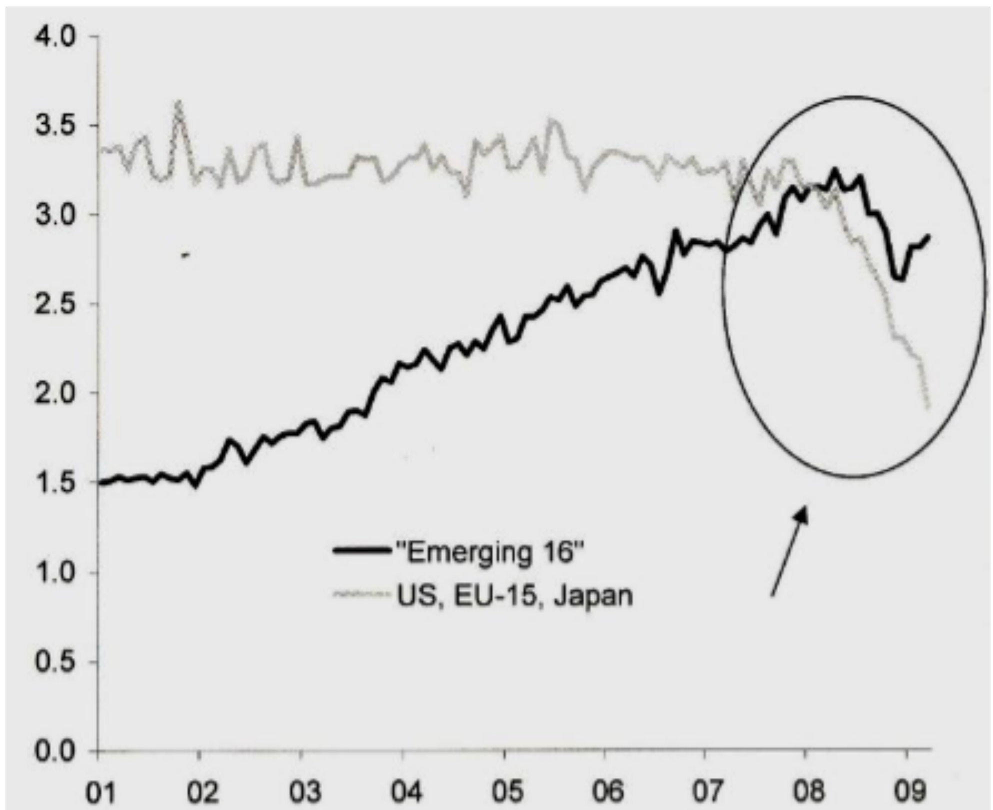
U.S. OVERCONSUMPTION STIMULATED THE CHINESE ECONOMY, LIFTED COMMODITY PRICES, AND ENRICHED RESOURCE PRODUCERS



Source: Ed Yardeni; www.yardeni.com

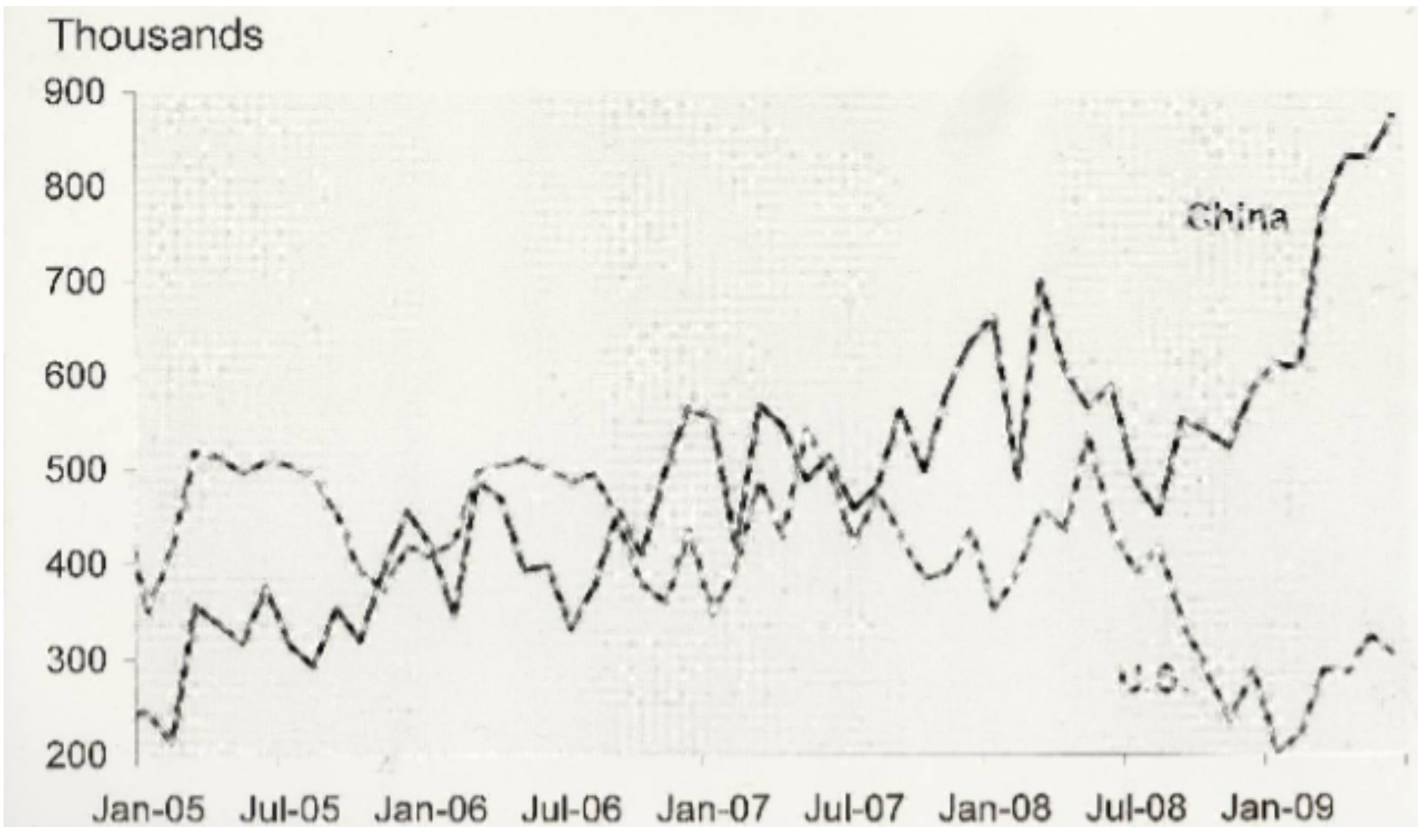
… A NEW WORLD HAS EMERGED

Monthly Motor Vehicles Sold (million units)



Source: Jonathan Anderson, UBS

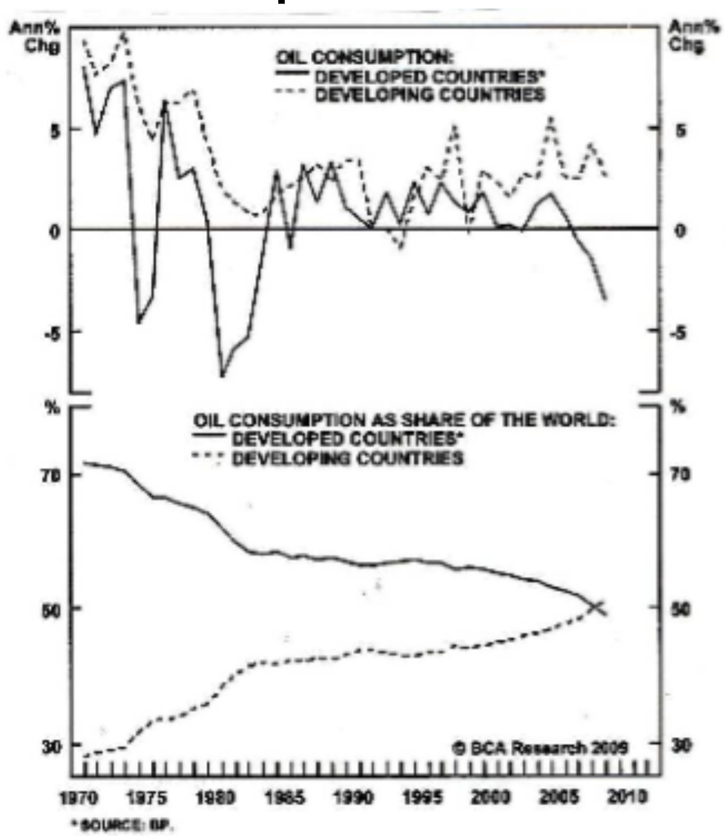
CARS SOLD MONTHLY IN U.S. vs CHINA



Source: J.P. Morgan

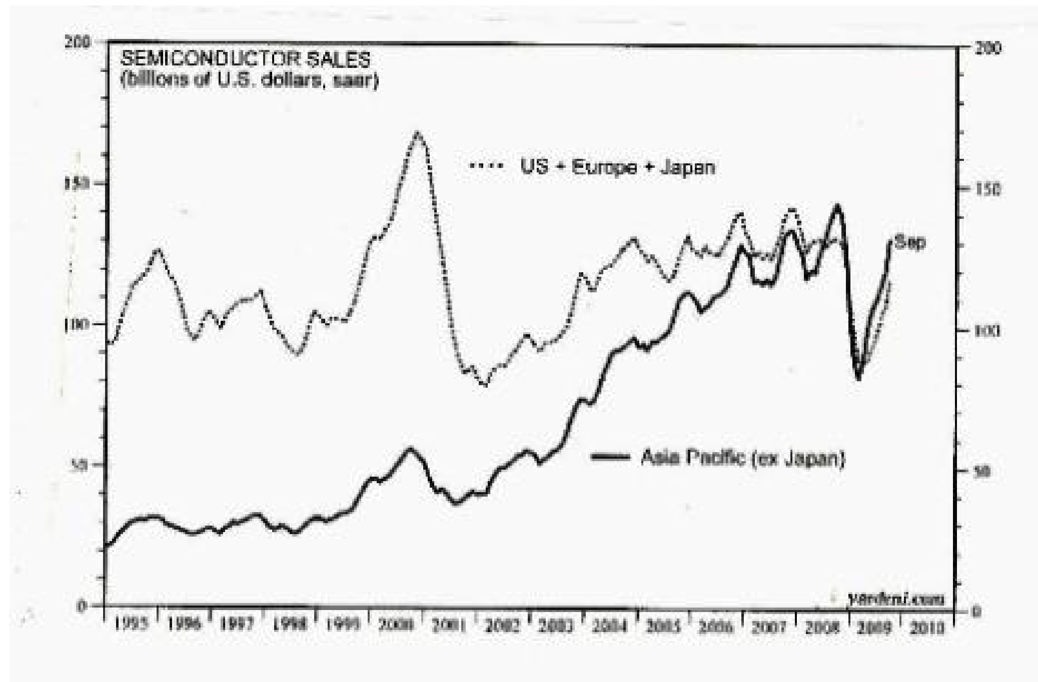
THE RISE OF THE EMERGING WORLD

Oil Consumption in Developing Economies Exceed Oil Demand in Developed Economies



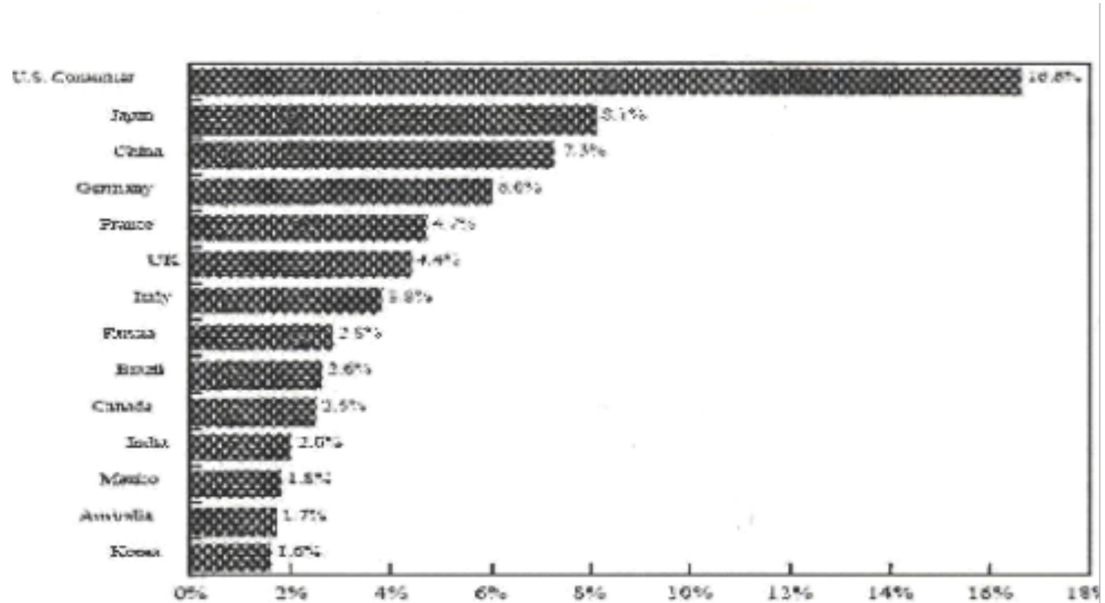
Source: Bank Credit Analyst

Semiconductor Sales In Asia Pacific Exceed Sales in the U.S., Europe & Japan

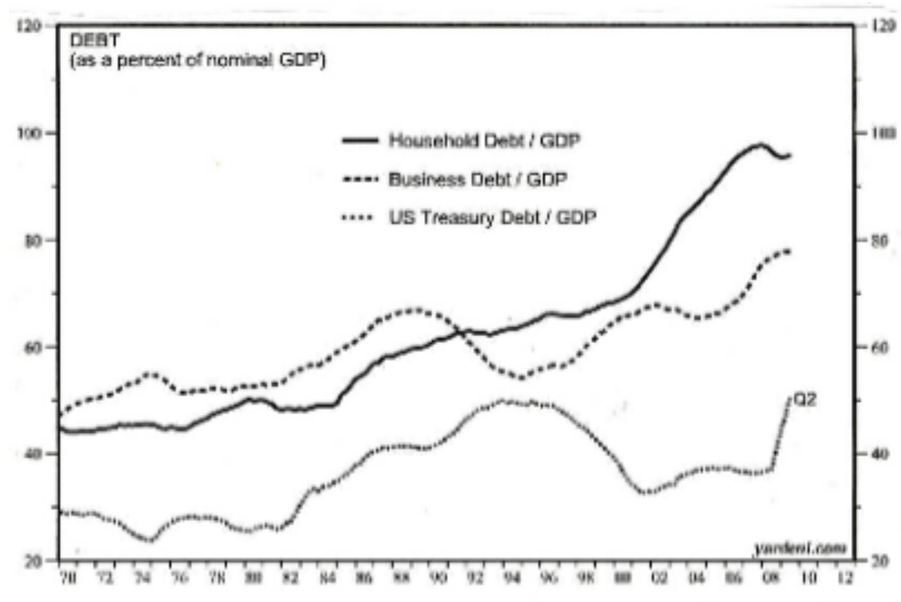


Source: Ed Yardeni; www.yardeni.com

U.S. CONSUMPTION STILL LARGEST IN THE WORLD BUT CONSUMER IS OVER-INDEBTED



Source: Gary Shilling



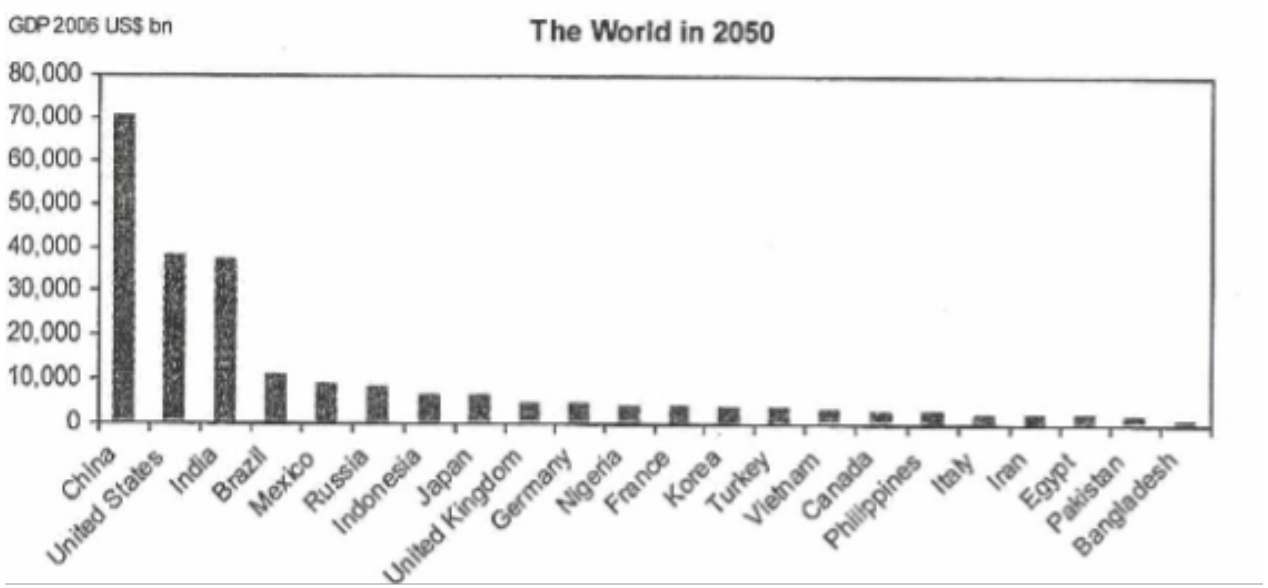
Source: Ed Yardeni; www.yardeni.com

GROWTH IN U.S. TRADE AND CURRENT ACCOUNT DEFICIT LED TO INCREASING INTERNATIONAL RESERVES AND A WEAK U.S. DOLLAR

Strong inverse correlation between the growth rate in International Reserves and the U.S. dollar!

Source: Ed Yardeni, www.yardeni.com

FROM NOW ON FASTER GROWTH IN EMERGING ECONOMIES



Source: Barry Bannister, Stifel Nicolaus & Co; Goldman Sachs

www.gloomboomdoom.com

PER CAPITA GDP (IN 1960 U.S. DOLLARS)

	Most Developed Countries	Developed Countries	Less Developed Countries	World
1750	230	182	188	188
1800	242	198	188	190
1860	575	324	174	218
1913	1350	662	192	560
1950	2420	1050	200	590
1995	5230	3320	480	1100

UP 21 TIMES

UP 2.5 TIMES

Rising wealth inequality between the MDCs and the LDCs over the last 250 years has reversed for good!

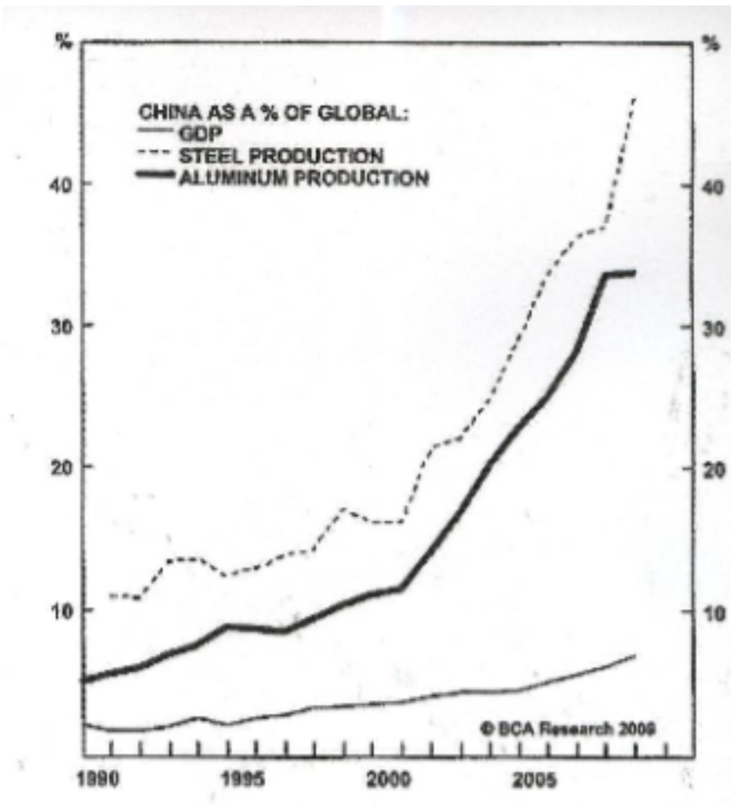
Source: Paul Bairoch, Victoires et déboires

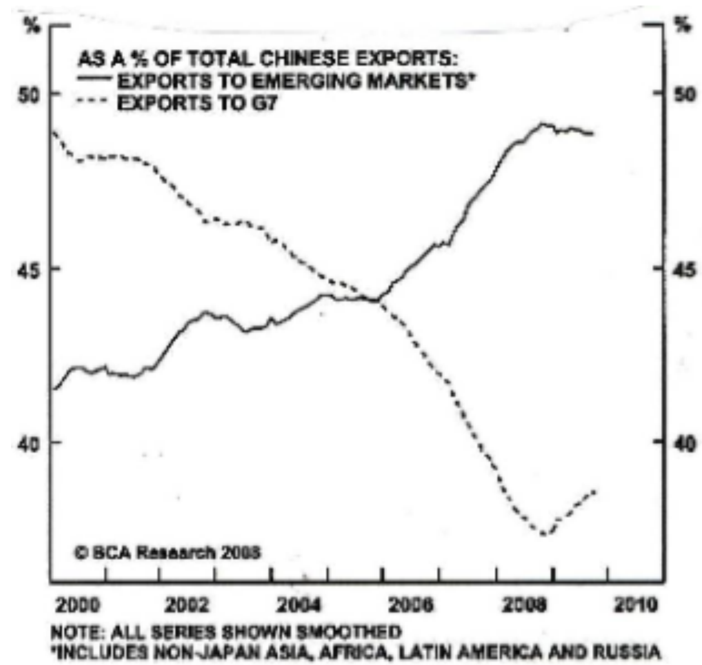
DRIVER OF GROWTH

Urbanization as Percentage of Population

Source: J.P. Morgan

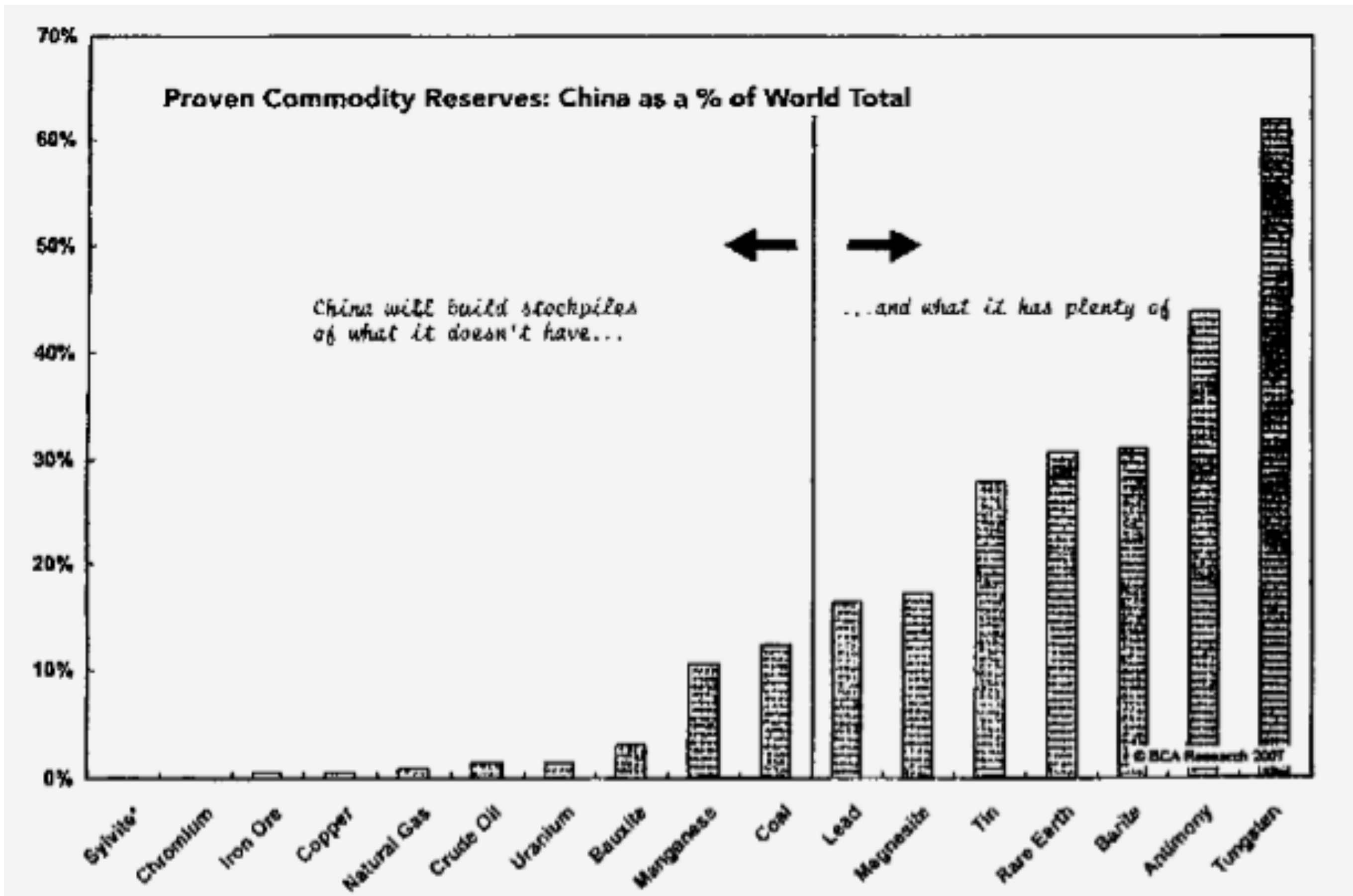
A MASSIVE INCREASE IN RESOURCE-INTENSIVE INDUSTRIES AND NEW EXPORT MARKETS





Source: The Bank Credit Analyst

FOR WHICH COMMODITIES WILL DEMAND NOT COLLAPSE?



Source: The Bank Credit Analyst

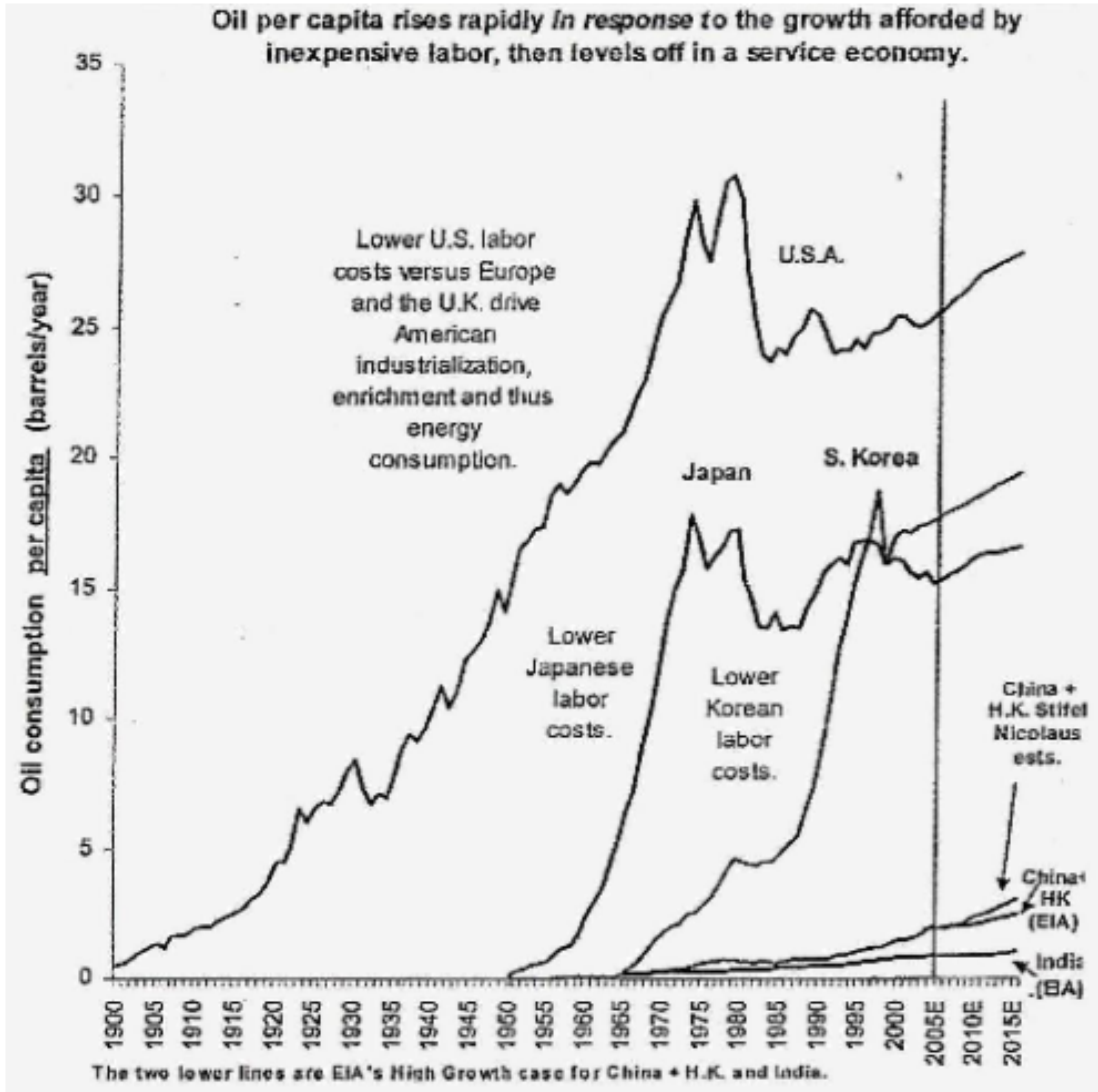
www.gloomboomdoom.com

CHINA'S COMMODITY CONSUMPTION

Commodity	Units	Average 2009 Figures: China Consumption	China Production	China Net Imports	Global Output	China Demand % Global	China Net Import % Global
Cotton	mmMT	10.7	8.2	2.5	26.3	40.6%	9.5%
Soybeans	mmMT	49.8	12.5	37.4	220.8	22.6%	16.9%
Copper	kMT	5014	3652	1362	18371	27.3%	7.4%
Soybean Oil	mmMT	9.7	7.1	2.6	37.6	25.8%	7.0%
Zinc	kMT	4018	3755	263	11509	34.9%	2.3%
Lead	kMT	3021	3024	-3	8464	35.7%	0.0%
Nickel	kMT	280	168	112	1397	20.0%	8.0%
Aluminum	kMT	12854	13435	-581	39594	32.5%	-1.5%
Rice	mmMT	127.5	128.1	-0.7	431.9	29.5%	-0.2%
Petroleum	mmb/d	7.8	3.8	4.0	86.5	9.0%	4.6%
Soybean Meal	mmMT	30.8	31.3	-0.4	158.5	19.5%	-0.3%
Corn	mmMT	149.0	149.5	-0.5	790.9	18.8%	-0.1%
Wheat	mmMT	104.0	106.8	-2.8	609.1	17.1%	-0.5%
Cocoa	mmMT	0.1	0.0	0.1	3.6	1.7%	1.7%
Sugar	mmMT	14.9	14.0	0.8	166.6	8.9%	0.5%
Coffee	mmMT	0.0	0.0	0.0	7.3	0.2%	0.2%
Natural Gas	Bcf/d	7.1	6.6	0.4	301.4	2.3%	0.1%

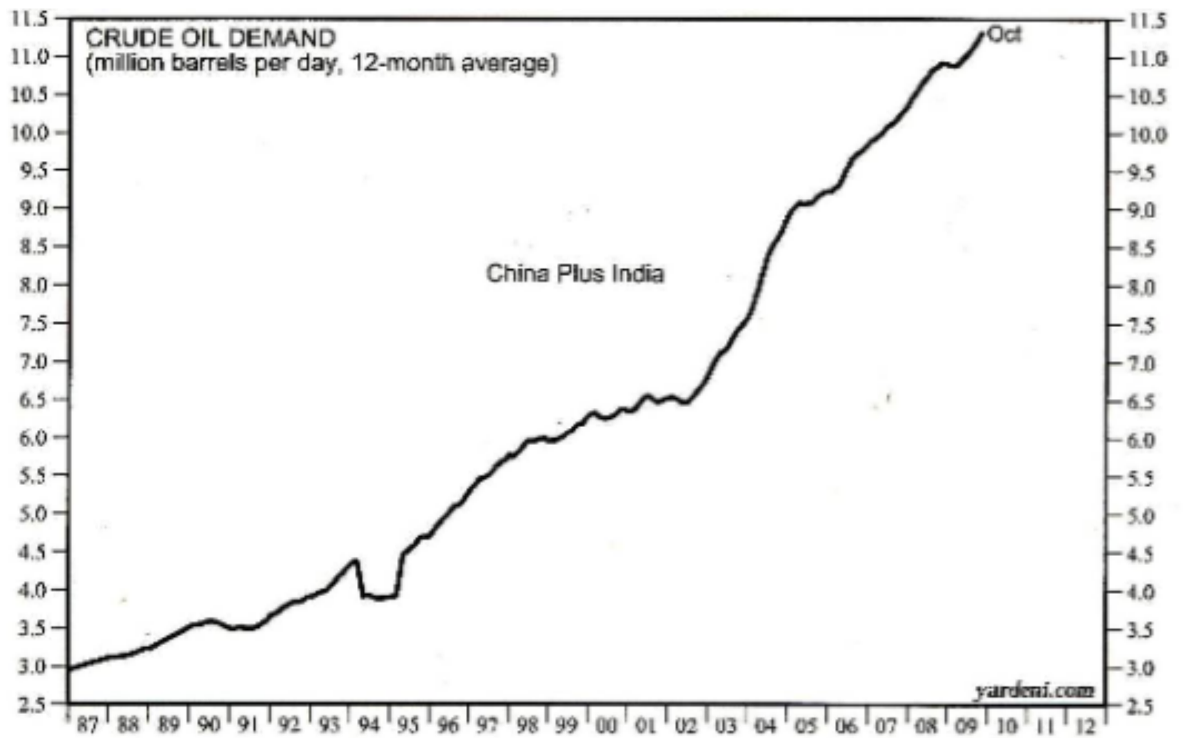
Source: Goldman Sachs

OIL CONSUMPTION DURING PHASES OF INDUSTRIALISATION



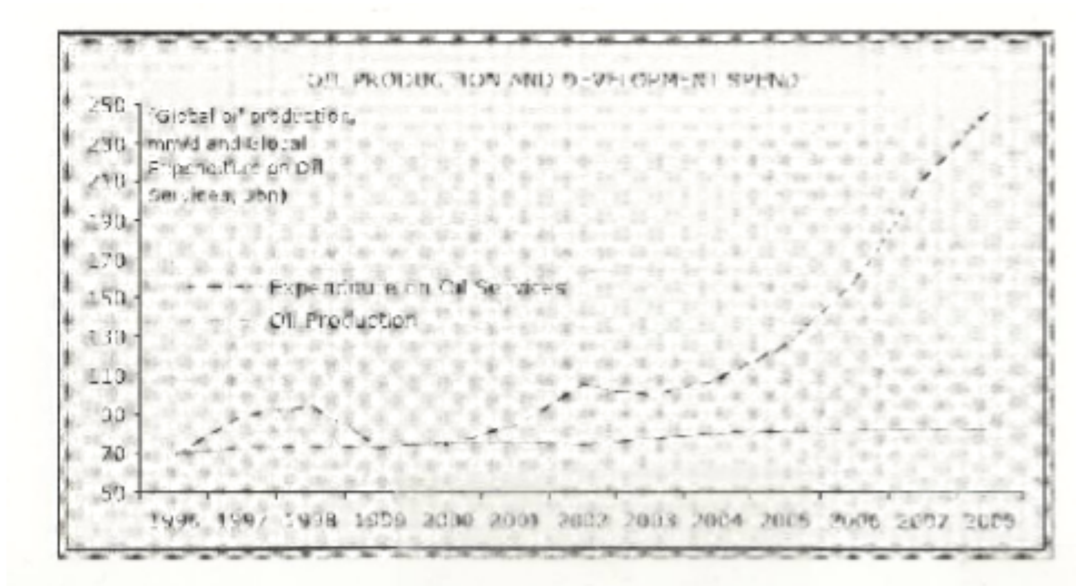
Source: Barry Bannister, Stifel, Nicolaus & Company, Inc

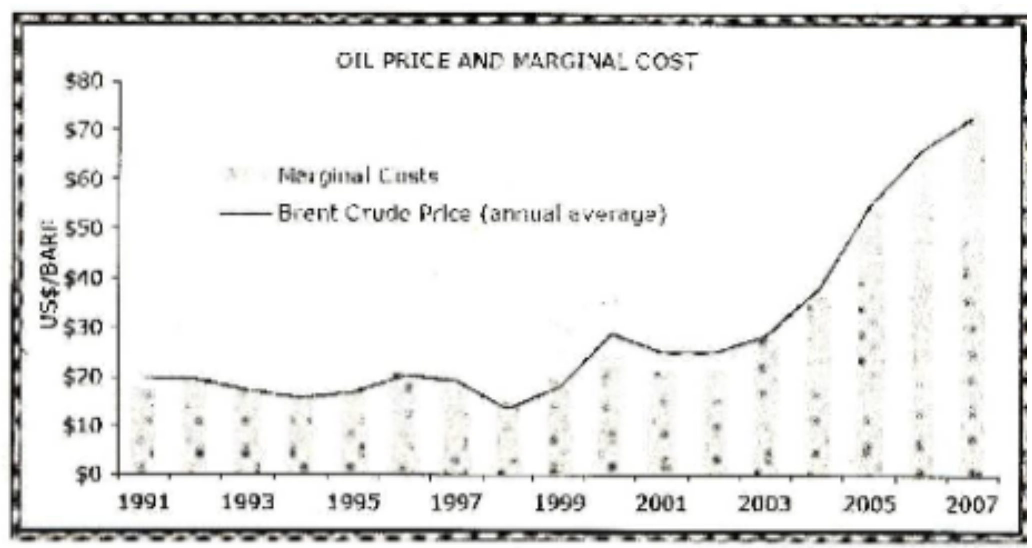
CRUDE OIL DEMAND IN CHINA AND INDIA AND ANNUAL CHANGE, 1987-2009



Source: Ed Yardeni; www.yardeni.com

OIL BECOMING HARDER AND MORE EXPENSIVE TO FIND

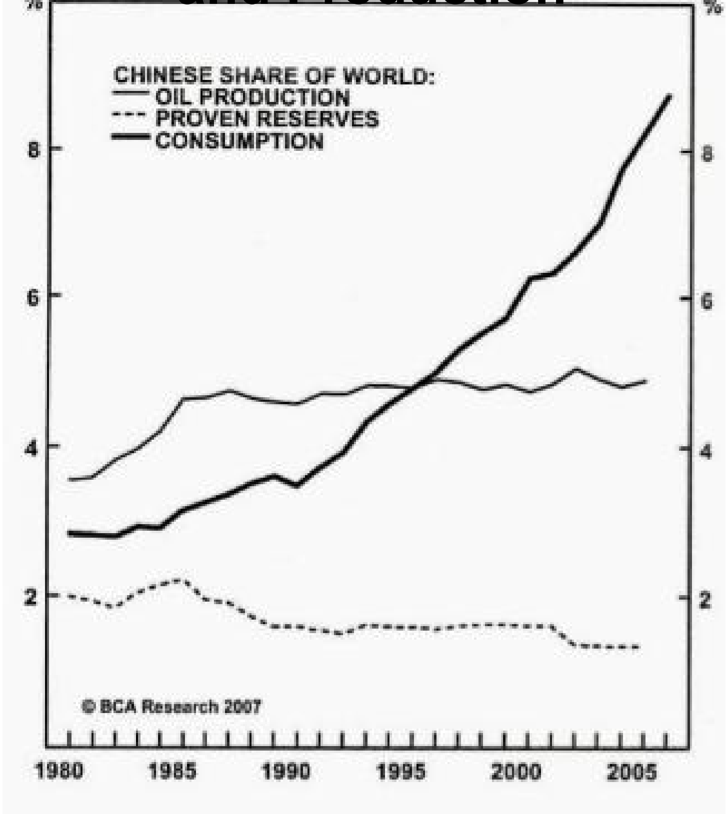




Source: Hussein Allidina, Gerard Minack, Morgan Stanley

THE GEOPOLITICS OF OIL

Chinese Share of World Oil Demand and Production

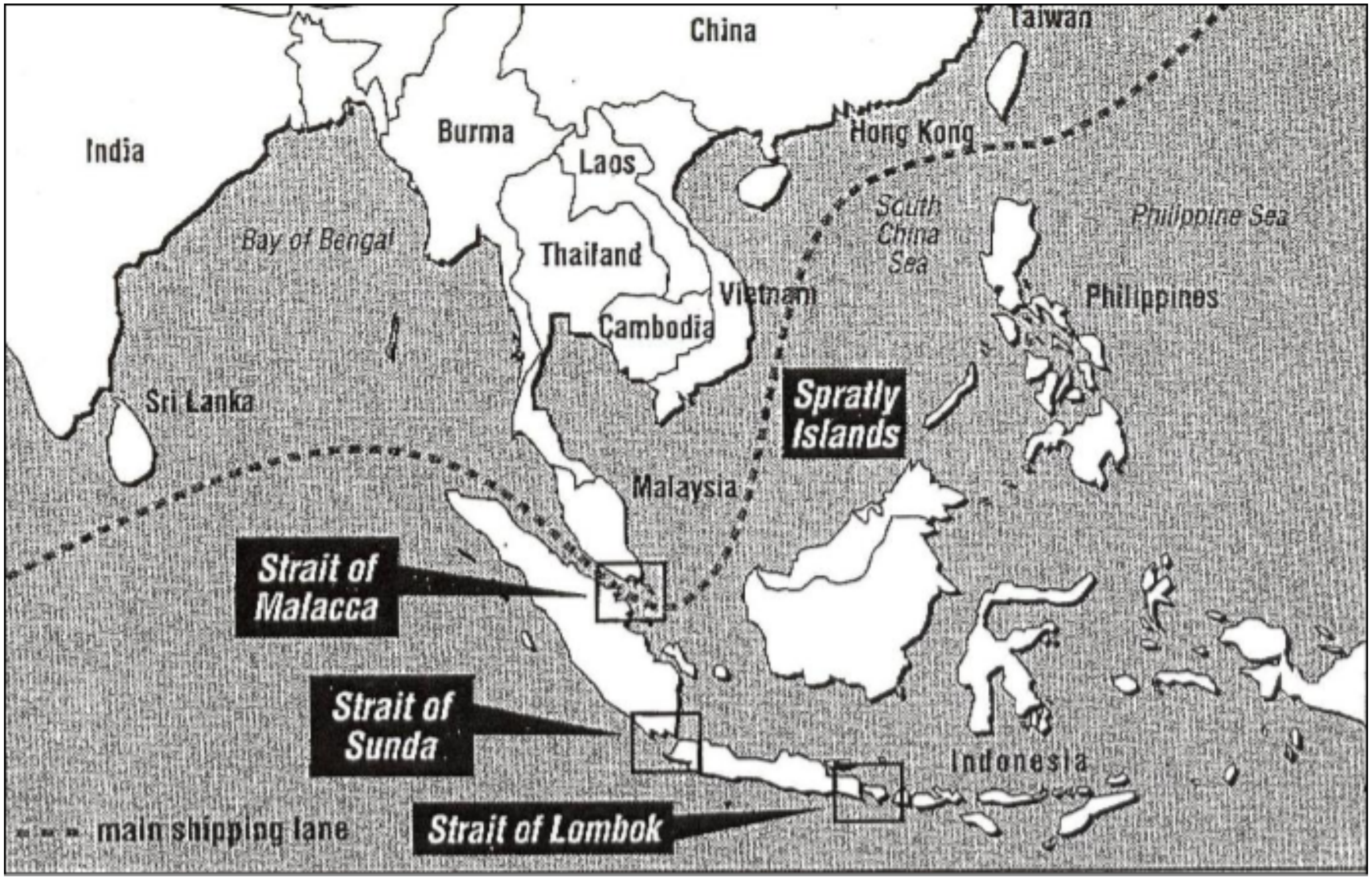


Source: The Bank Credit Analyst

Map of Iran

Source: Perry-Castaneda Library Map Collection

THE GEOPOLITICS OF OIL IN ASIA: THE CONTROL OF SEA LANES

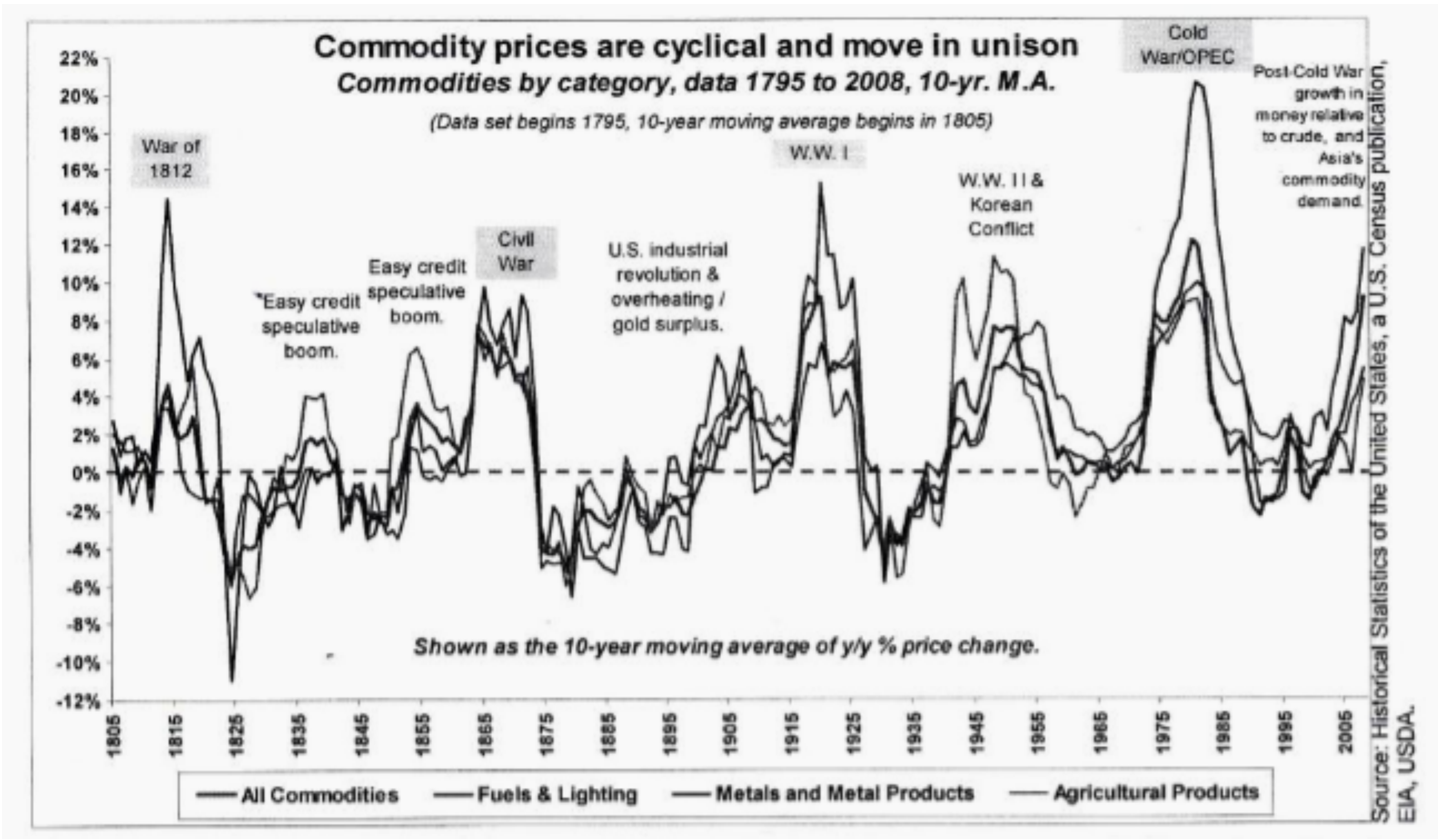


THE SCO INCLUDES CHINA, RUSSIA, KAZAKHSTAN, KYRGYZSTAN, TAJIKISTAN AND UZBEKISTAN

Source: 1999 MAGELLAN GeographixSM, (805) 685-3100: www.maps.com

www.gloomboomdoom.com

RISING COMMODITY PRICES LEAD TO INTERNATIONAL TENSIONS – WARS LEAD TO SOARING PRICES



Source: US Bureau of the Census, Historical Statistics of the United States, Colonial Times to 1970, Legg Mason Format

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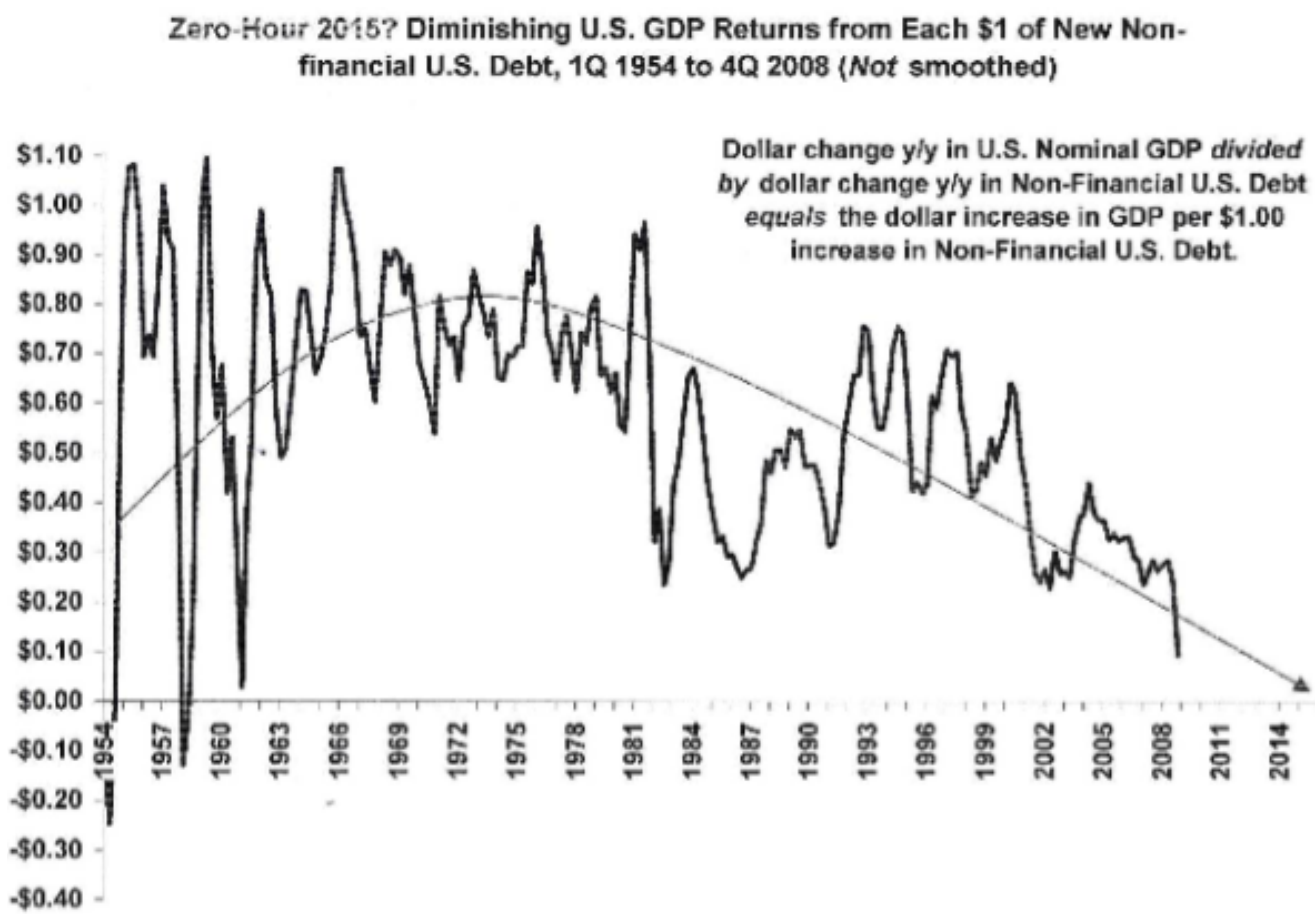
ZERO HOUR! 1954-2009



2000-2007: Nominal GDP Growth: + $4.2. trillion
Total Credit Market Debt: +$21.4 trillion

Source: Barry Bannister, Stifel Nicolaus

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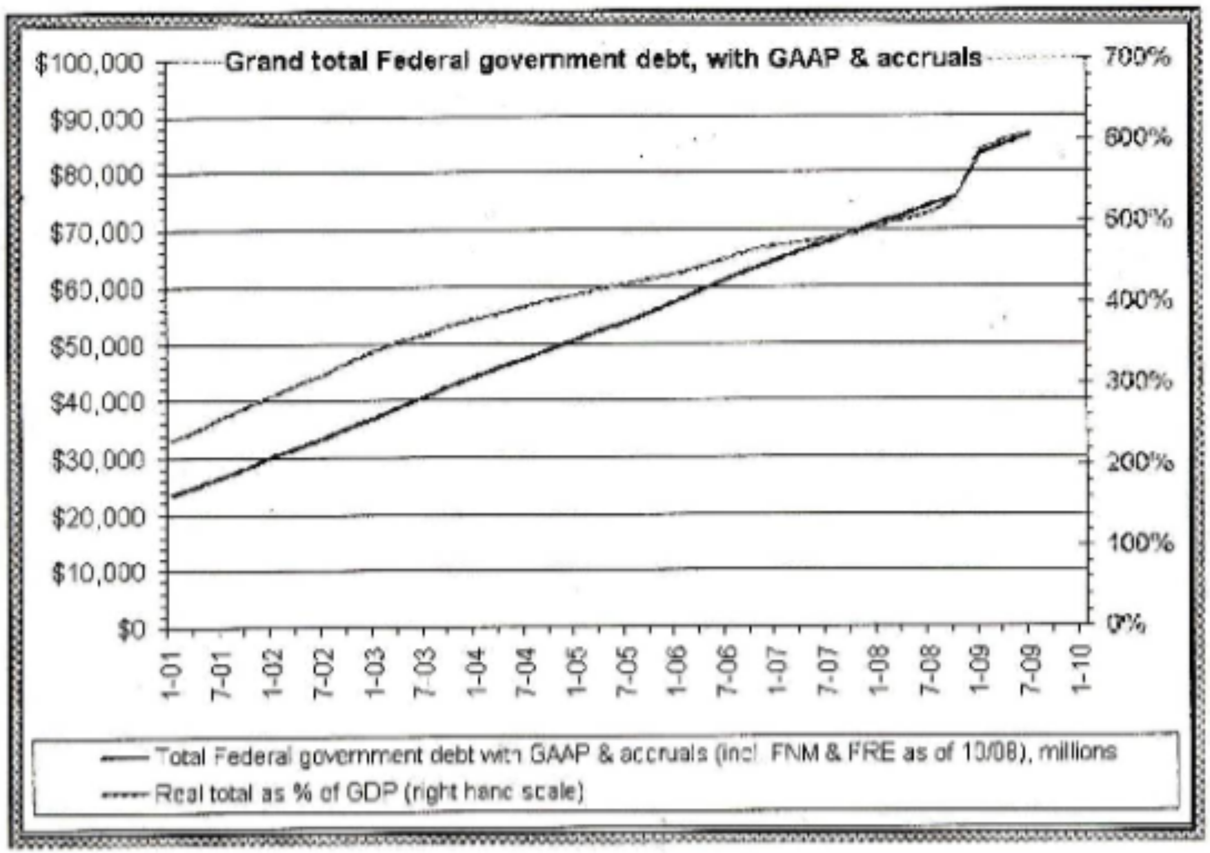
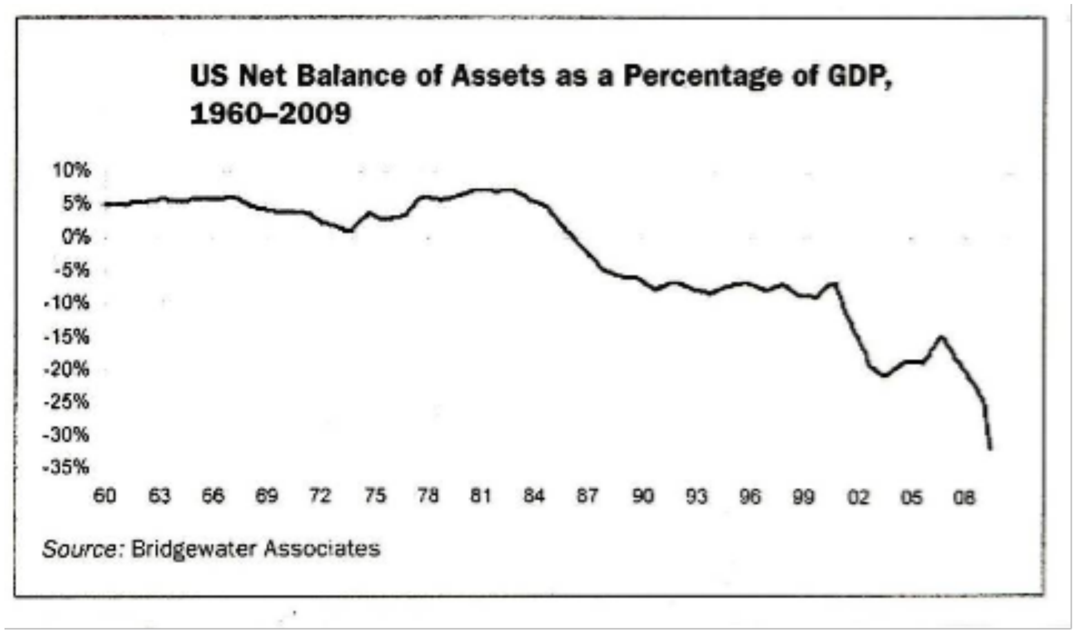
TOTAL FEDERAL GOVERNMENT DEBT WITH GAAP & ACCRUALS (incl. FNM & FRE as of 10/08), MILLIONS



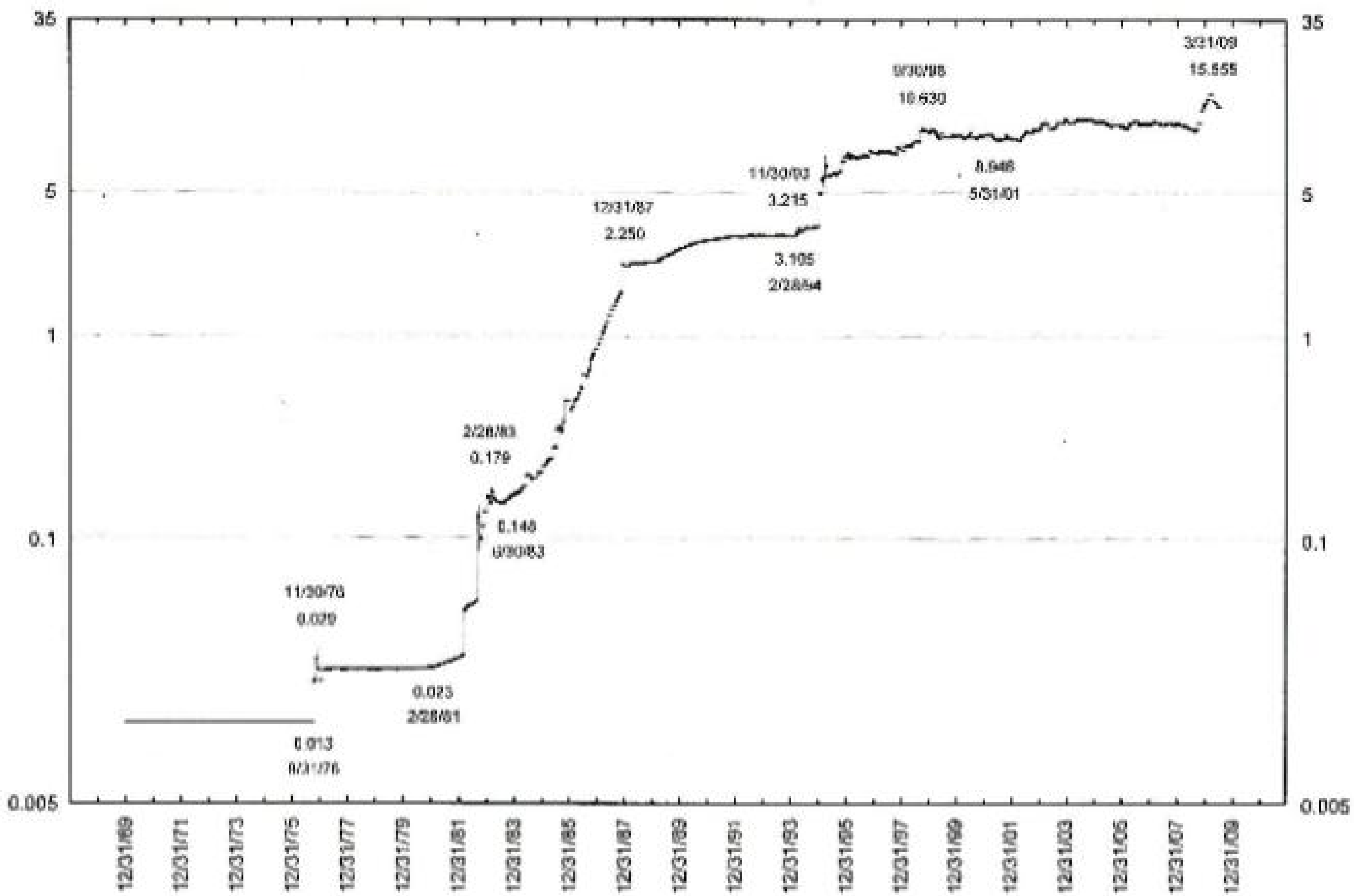
Source: www.nowandfutures.com

WORSENING EXTERNAL POSITION OF THE U.S.: U.S. NET BALANCE OF ASSETS AS A PERCENTAGE OF GDP, 1960-2009



Source: Bridgewater Associates

MEXICAN PESO, 1969-2009
(Monthly Spot – Pesos per USD)



Source: Ron Griess, www.thechartstore.com

MOVEMENT OF MEXICAN STOCKS IN PESO AND USD, 1979-1988

Table 1 **High/Low of Mexican Stock Exchange Index (pesos), 1979–1988**

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
High	1,651	1,432	1,479	796	2,452	4,366	11,197	47,101	343,545	178,456 (Feb)
Low	1,066	1,107	862	496	837	2,885	3,710	12,802	60,281	139,620

Table 2 **High/Low of Mexican Stock Exchange Index (US$), 1979–1988**

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
High	70	62	63	29	15	24	25	51	220	77 (Feb)
Low	48	48	34	5	5	16	16	25	47	62

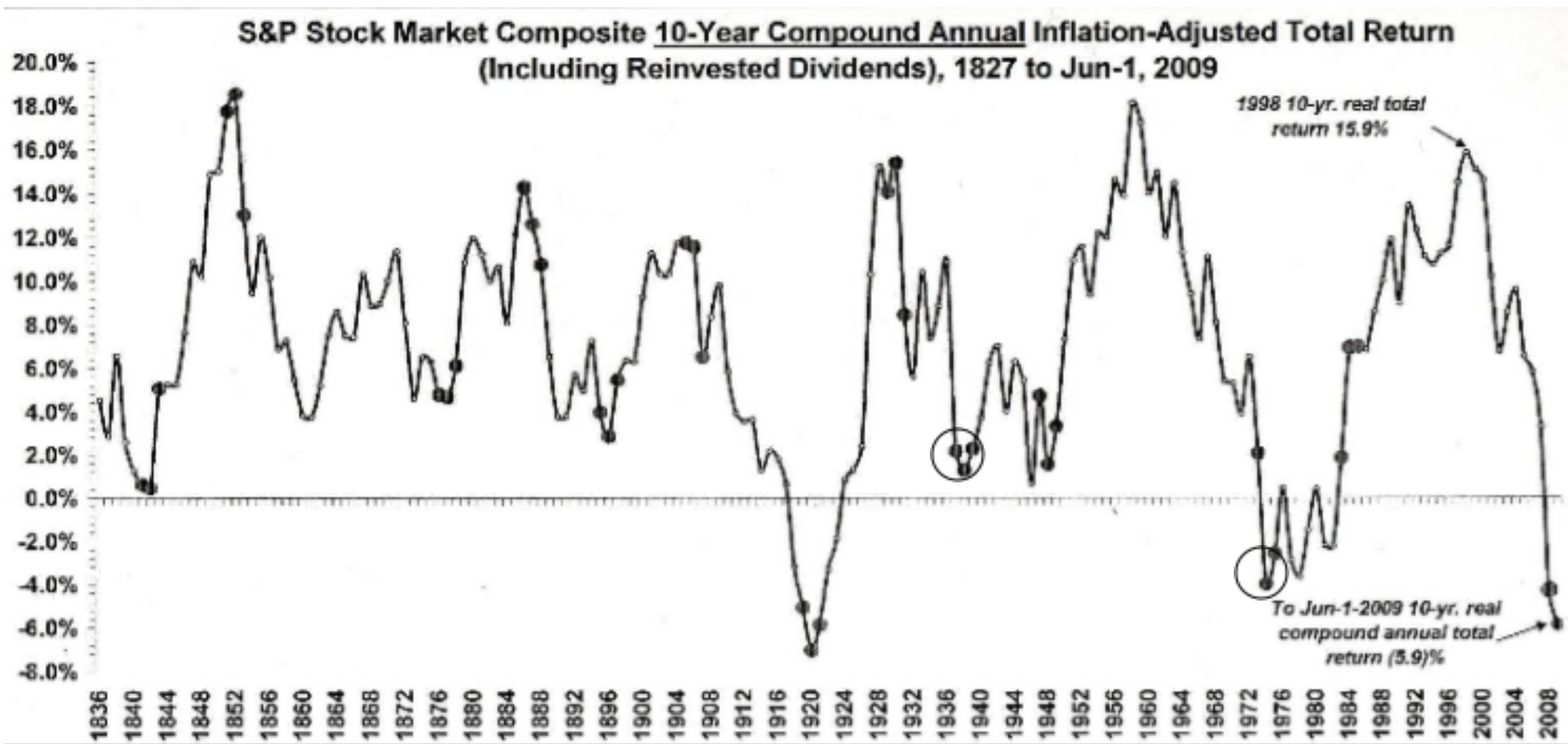
Table 3 **Mexican Fund Net Asset Value (US$), 1979–1988**

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Net Asset Value	N.A.	10.00	3.30	1.72	2.88	2.95	3.53	9.84	15.70	7.10*

* As at March 4, 1988
Sources: Acciones Y Valores De Mexico, SA; Marc Faber, *The Great Money Illusion* (Hong Kong, 1988)

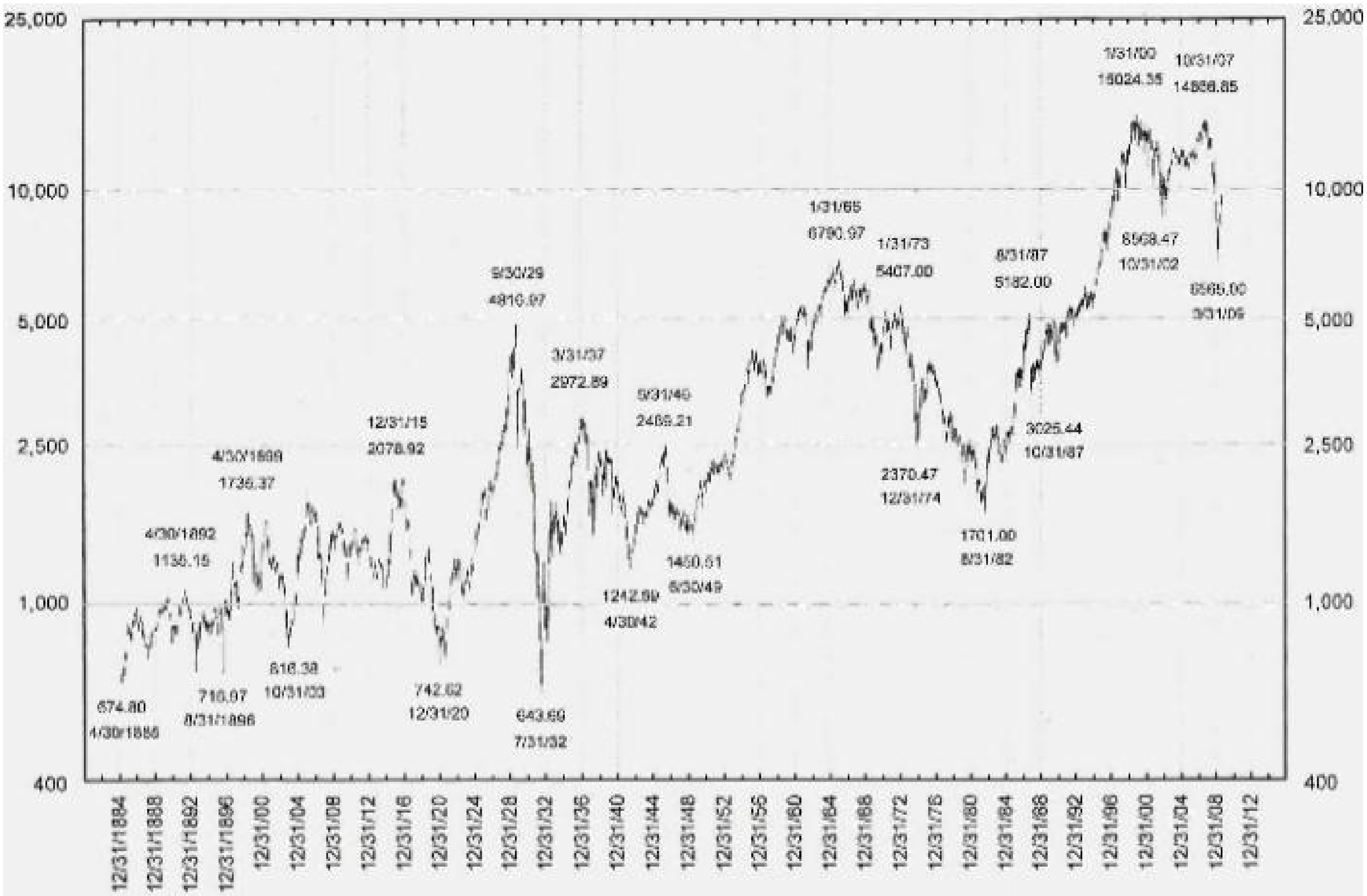
Source: Acciones Y Valores De Mexico, SA;
Marc Faber, *The Great Money Illusion* (Hong Kong, 1988)

U.S. STOCK MARKET 10-YEAR COMPOUND ANNUAL TOTAL RETURN 1827-2009



Source: Barry Bannister, Stifel Nicolaus

DOW JONES INDUSTRIAL AVERAGE, 1885-2009
(Monthly – Adjusted for inflation by the CPI – All items)



Source: Ron Griess; www.thechartstore.com

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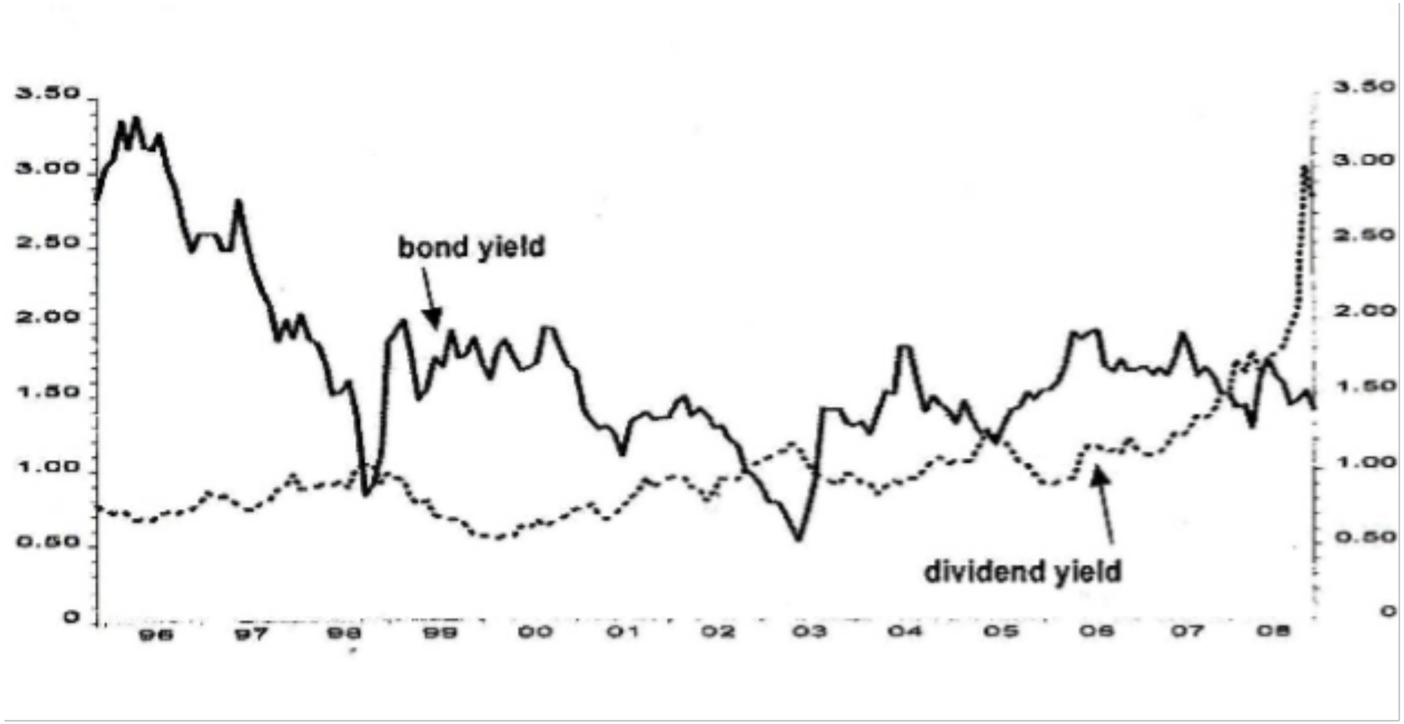
JAPAN: BOND YIELD AND DIVIDEND YIELD
1996-2008



Source: Albert Edwards, Société Géneralé

NIKKEI 225, 1970-2009
(Monthly
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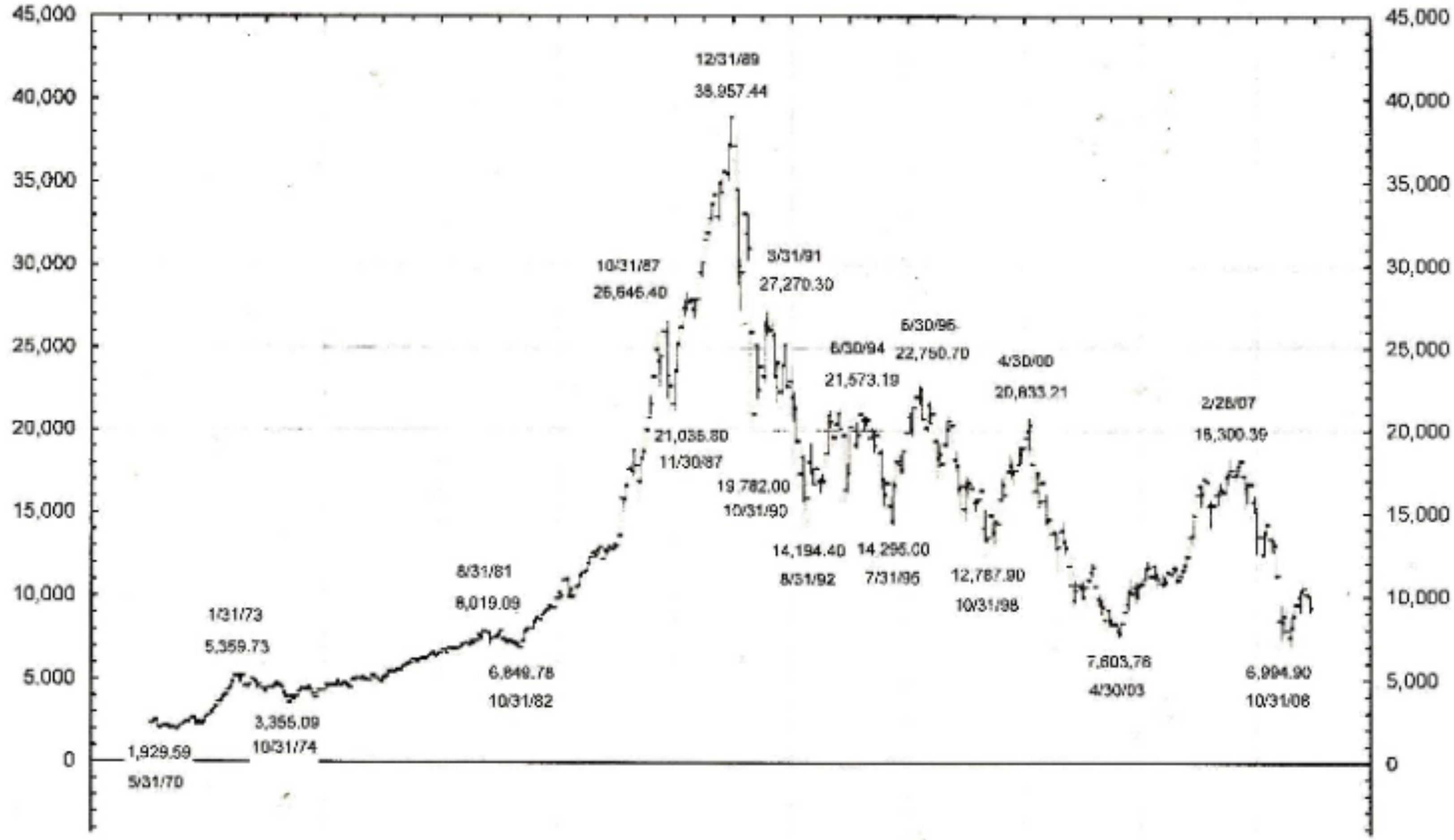

Source: Ron Griess, www.thechartstore.com

SHANGHAI STOCK EXCHANGE (SSE) COMPOSITE

(Monthly
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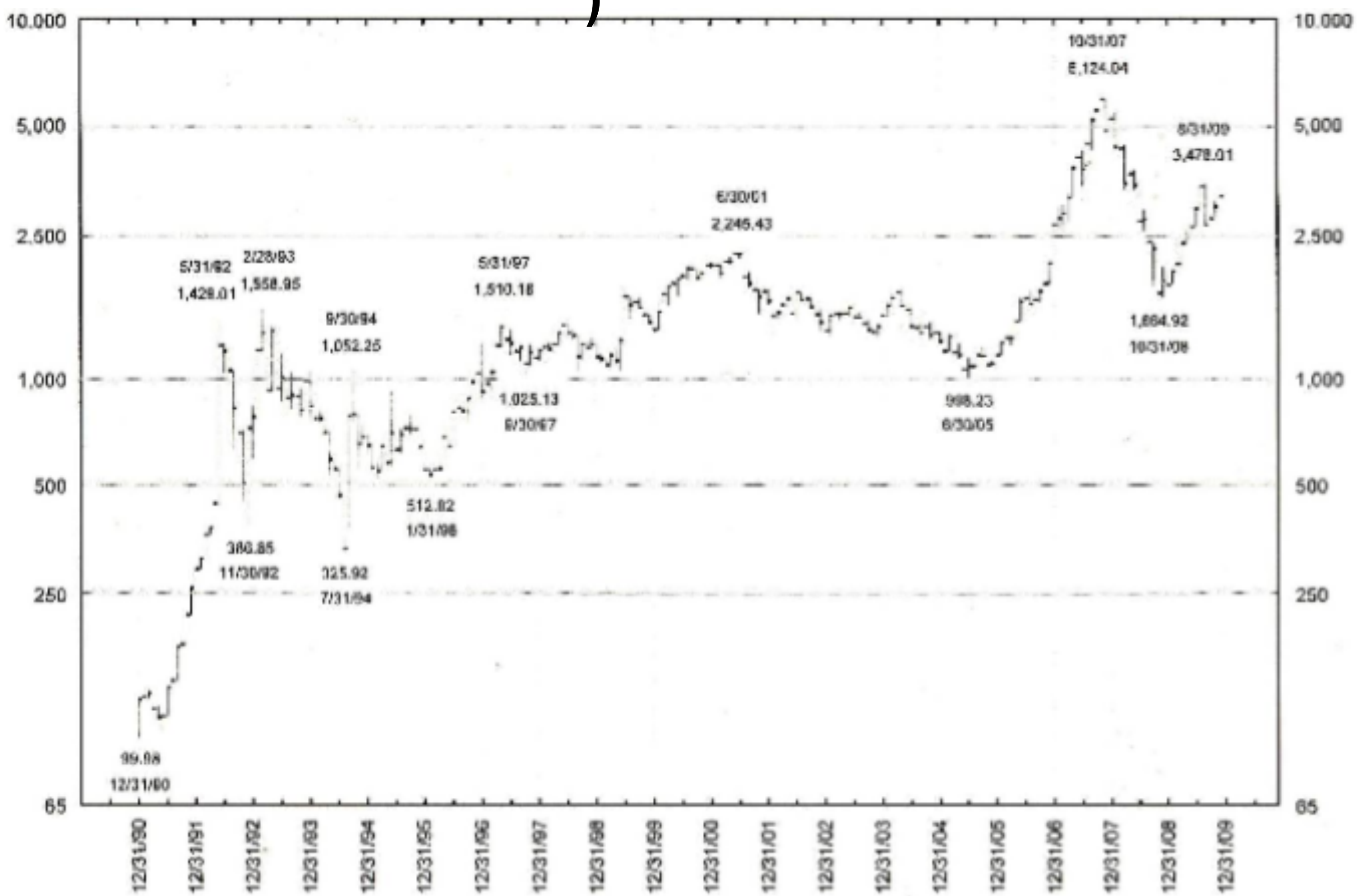

Source: Ron Griess; www.thechartstore.com

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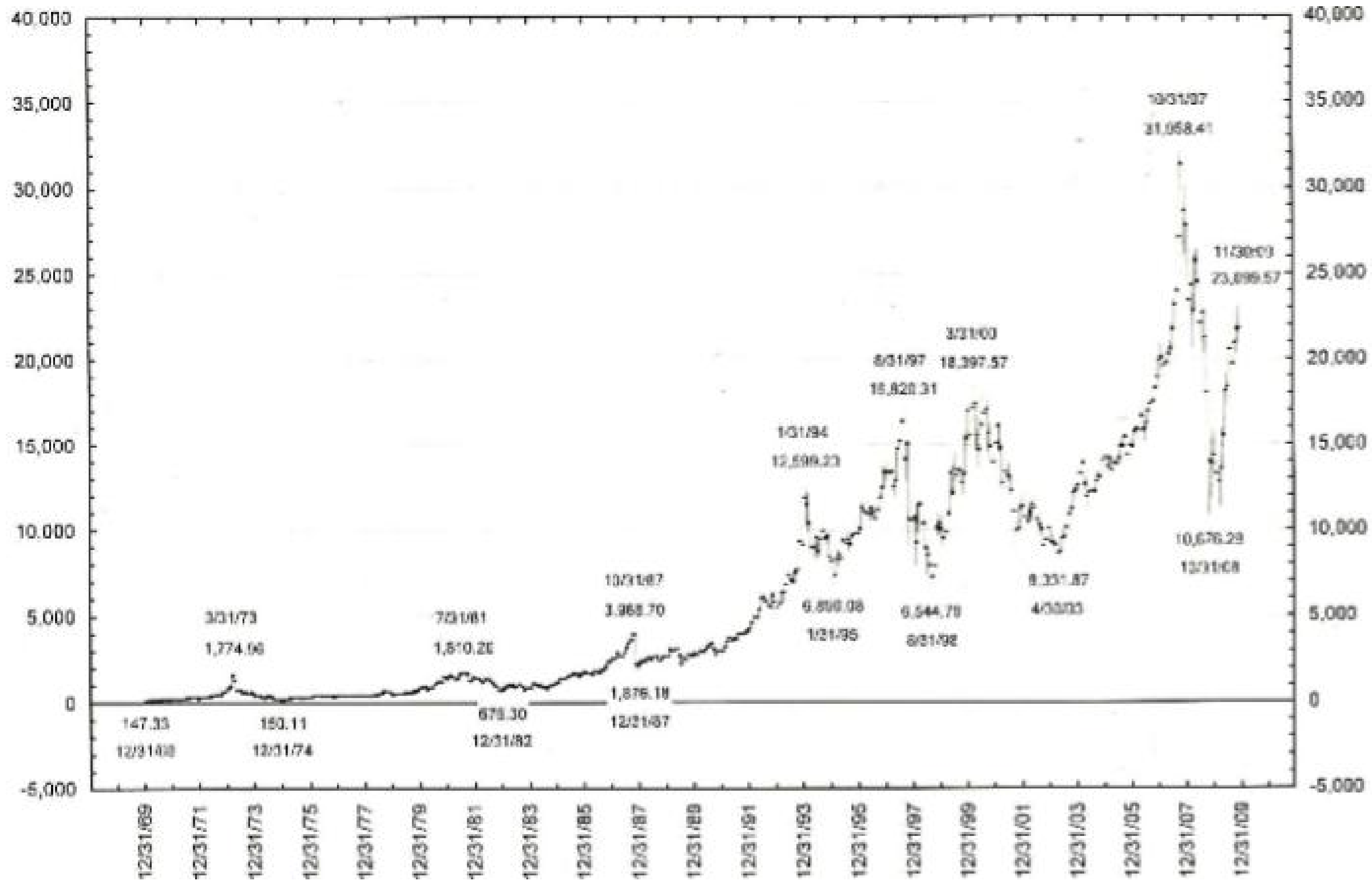
com

HANG SENG INDEX

(Monthly)



Source: Ron Griess; www.thechartstore.com

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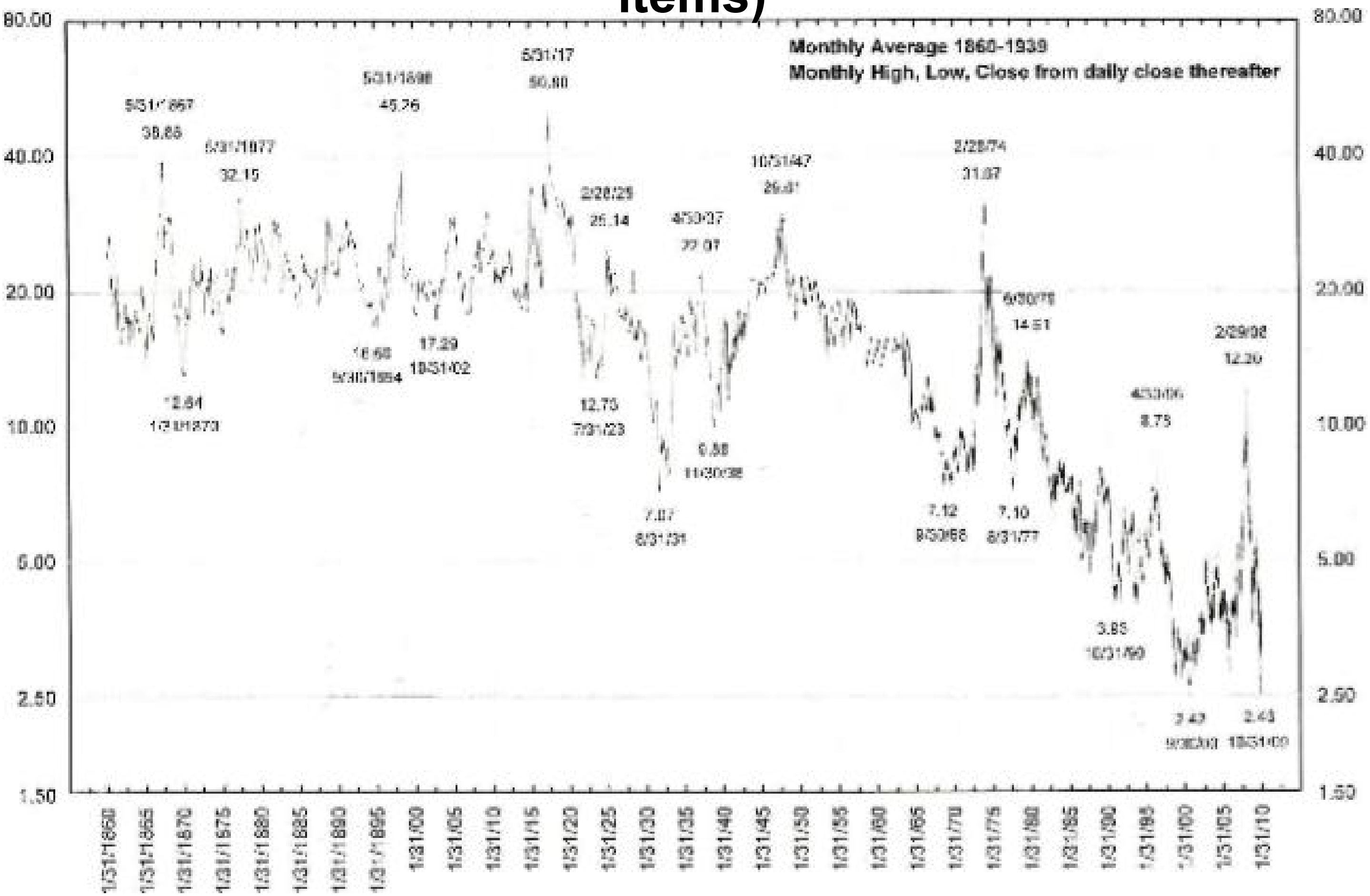
INVEST IN AGRICULTURE AND WATER

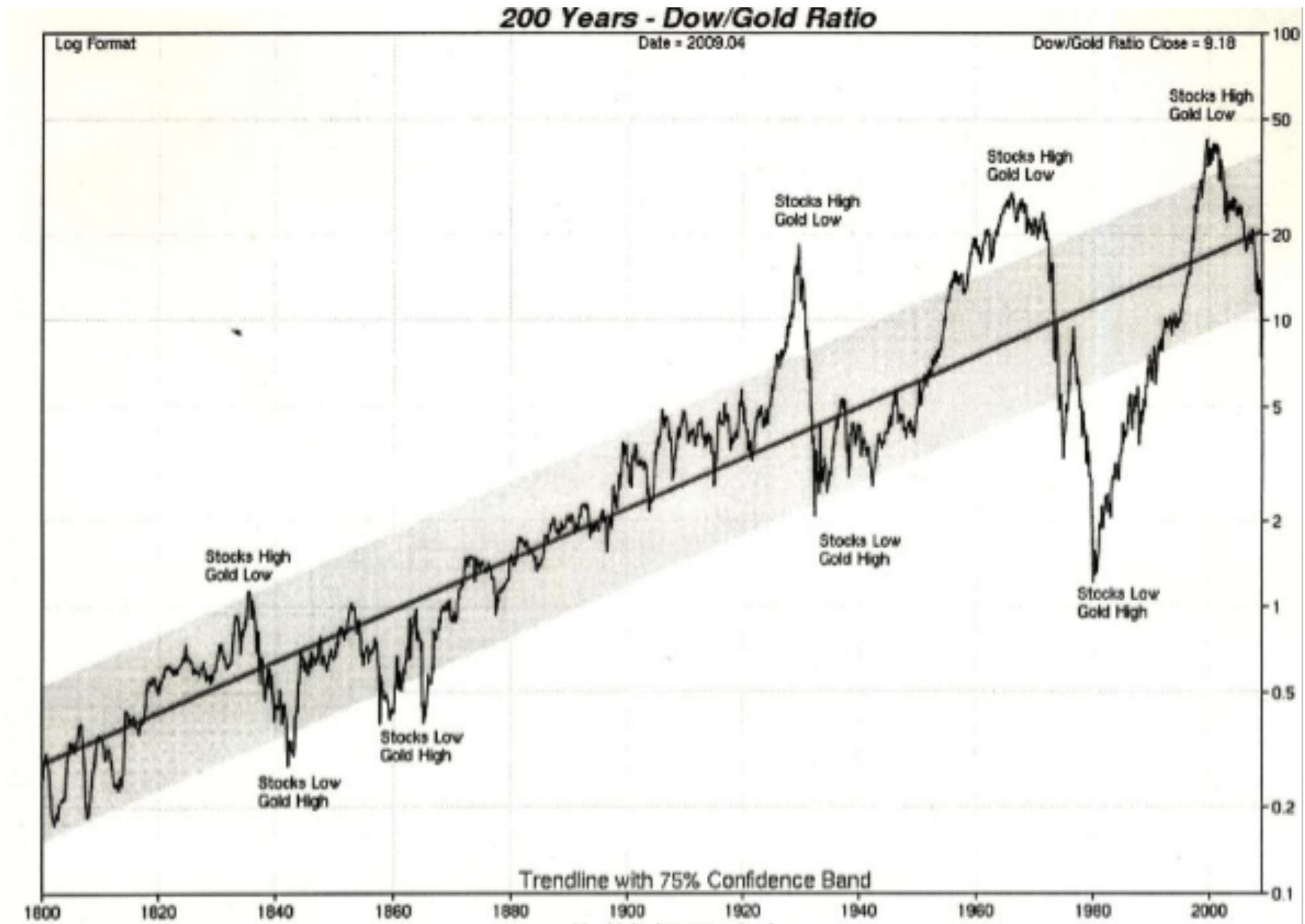
Wheat
(spot cash, $ per bushel – Adjusted for inflation by the CPI – All items)



Source: Ron Greiss; www.thechartstore.com

INVEST IN PRECIOUS METALS

Dow To Gold Ratio, 1800-2009



Source: www.sharelynx.com

INVESTMENT THEMES

Investors will need to rethink their global asset allocation and should in future have at least 50% of their assets exposed to emerging economies

Properties in In the countryside and in upcoming regions
Emerging Economies:

Equities in Asia: Major lows were established between October 2008 and March 2009

Healthcare in Asia: Pharmaceutical and hospital management companies. Markets are not saturated and companies will benefit from a growing and ageing population globally
Local Brands: Will displace some international brands

Commodities: Volatile, but uptrend intact. Corrections of 50% are common. Agricultural commodities, natural gas, and exploration companies are extremely depressed.

Investment Themes cont'd.

Tourism: Hotels, casinos, airports, beach resorts

Financial Services: Banks, insurance and consumer finance companies, brokers, REITs in emerging economies
Infrastructure: Bottlenecks everywhere in particular in India and Africa. Water!

Plantations and Farmland: Indonesia, Malaysia, Latin America, Ukraine

Japan: The perfect contrarian play. Banks!

New Regions: Cambodia, Laos, Myanmar, Mongolia, Sri Lanka, Africa

Gold and Silver: Long

US Treasury Bonds: Short

CONCLUSIONS

Ludwig von Mises: "The dearth of credit which marks the crisis is caused not by a contraction but by the abstention of further credit expansion." Central bankers have become hostage to inflated asset markets! Will tight money -whenever necessary - be implemented again?

A short lived "crack-up" boom in 2010 driven by expansionary fiscal and monetary policies is a possibility. How sustainable will it be?

The current crisis has failed to clean up the system and policy responses are the same that were applied post 2001.

Sovereign defaults are likely to soar in the next few years.

The final crisis has yet to come! The economic, social, and geopolitical clock will then be permanently reset.

There is no means of avoiding a final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as a result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved.

Ludwig von Mises